

## TC Document

### I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Strengthening management of projects to support private sector innovation and digital transformation in the Eastern Caribbean
▪ TC Number:	RG-T4080
▪ Team Leader/Members:	Dohnert De Lascurain, Sylvia Eva (IFD/CTI) Team Leader; Stevenson, Claudia (IFD/CTI) Alternate Team Leader; Amarante Pufal, Nathalia (IFD/CTI); Anganu, Jaiwattie (IFD/CMF); Doherty Bigara Rodriguez, Jennifer (CSD/CCS); Franklin, Rochelle (CCB/CBA); Goni Pacchioni, Edwin Antonio (IFD/CTI); Jimenez Mosquera, Javier I. (LEG/SGO); Maria Alejandra Galeano (IFD/CTI); Radaelli, Vanderleia (IFD/CTI); Sandra Lopez (IFD/CTI)
▪ Taxonomy:	Operational Support
▪ Operation Supported by the TC:	RG-L1160.
▪ Date of TC Abstract authorization:	12 Apr 2022.
▪ Beneficiary:	The Caribbean Development Bank (CDB), and Business Support Organizations (BSOs) and Financial Intermediaries (FIs) located in Antigua & Barbuda, Dominica, Grenada, St. Lucia, St. Kitts & Nevis, St. Vincent & the Grenadines <sup>1</sup>
▪ Executing Agency and contact name:	Caribbean Development Bank
▪ Donors providing funding:	OC SDP Window 2 - Institutions(W2C)
▪ IDB Funding Requested:	US\$270,000.00
▪ Local counterpart funding, if any:	US\$255,000.00 (Cash)
▪ Disbursement period (which includes Execution period):	36 months
▪ Required start date:	January 2023
▪ Types of consultants:	Individuals and Firms
▪ Prepared by Unit:	IFD/CTI-Competitiveness, Technology and Innovation Division
▪ Unit of Disbursement Responsibility:	CCB/CBA-Country Office Barbados
▪ TC included in Country Strategy (y/n):	N/A
▪ TC included in CPD (y/n):	N/A
▪ Alignment to the Update to the Institutional Strategy 2020-2023:	Gender equality; Institutional capacity and rule of law; Productivity and innovation

### II. Description of the Associated Loan/Guarantee

- 2.1 Countries in the Caribbean have grown at diminishing rates over the past decades – especially compared to other Small Island Developing States. Specifically, the GDP per Capita of the Organization of Eastern Caribbean States (OECS) member countries<sup>2</sup> grew at an annual average of 1.45% between 2001 and 2019, and in 2020 their GDP contracted by 13.7% on average, due to COVID-19's impact on

<sup>1</sup> In accordance with the agreement between IDB and CDB, once CDB is executing IDB funds, these funds are eligible to benefit IDB non-member countries that are members of CDB. This TC is focused on the OECS countries.

<sup>2</sup> The eligible OECS member countries to be financed through RG-L1160 and this TC are Antigua and Barbuda, The Commonwealth of Dominica, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines.

tourism.<sup>3</sup> Although like other Caribbean countries, their small size exposes them to economic shocks, and their location makes them vulnerable to natural disasters, an analysis of the growth gap between Caribbean countries and the other small economies of the world<sup>4</sup> since the 1990s identified lower Total Factor Productivity (TFP) growth as the most important determinant of this growth gap.<sup>5</sup> Globally, TFP accounts for most of the growth differences across countries.<sup>6</sup> One of the drivers of TFP is business innovation, including the creation or adoption of technology, leading to higher value-added activities, products and processes, and improving the performance of existing ones,<sup>5</sup> thus increasing labor productivity at the firm level.<sup>6</sup>

- 2.2 Caribbean businesses invest significantly less in innovation in products and services than those of other small world economies, and this difference is concentrated in SMEs.<sup>7</sup> OECS businesses innovate at even lower rates: 43% of OECS businesses had innovated between 2017 and 2020 compared to 57% of Caribbean non-OECS businesses. OECS businesses also lag in terms of digital technology adoption when compared to businesses in other Caribbean countries (45% vs. 55%) and display much lower rates of potential digital adoption (38% vs. 62%). Moreover, in the OECS countries, only 29% of businesses had adopted climate technology by 2020, despite their very high costs of energy<sup>8</sup> the resource scarcity typical of SIDS,<sup>9</sup> and the new and emerging environmental issues threatening SIDS. In terms of gender equality, OECS women-owned firms (WOFs) show a much lower propensity for innovation (including digital innovation) and for adoption of climate technology in relation to their male counterparts.
- 2.3 The Caribbean Development Bank (CDB) has created a new Private Sector Division (PSD) to expand its action to strengthen private sector development in the Caribbean. To help consolidate the action of its new PSD, the CDB requested a Global Credit Loan (GCL) under preparation: RG-L1160 – “Strengthening Private Sector Development through Innovation in the Eastern Caribbean OECS Member Countries” which has the general development objective to increase the productivity of Micro, Small and Medium Enterprises (MSMEs) in the OECS countries. Its specific development objectives are: (i) promoting innovation efforts in MSMEs of OECS countries; (ii) strengthening the supply and demand of services for technology adoption readiness in MSMEs of OECS countries; and (iii) promoting technology adoption and digitalization in MSMEs of OECS countries.
- 2.4 To achieve these objectives, the GCL will create three new funds managed by the CDB as Executing Agency (EA), through its internal unit, the PSD, as follows: **(i) an innovation grants fund** to finance matching grants, seed capital and training to new or existing MSMEs to support the development of new products or services in existing firms, including climate products and digital products; **(ii) a technology adoption readiness grants fund** to finance strengthening of technology providers, vouchers for consultancy services to prepare businesses for technology adoption,

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<sup>3</sup> World Economic Data, October 2021.

<sup>4</sup> Defined as economies with less than 3 million in population.

<sup>5</sup> Ruprah, Melgarejo and Sierra (2014). Is there a Caribbean Sclerosis?

<sup>6</sup> Easterly and Levine (2001). “It’s not Factor Accumulation: Stylized Facts and Growth Models”.

<sup>7</sup> [Ruprah and Sierra. \(2016\). Engine of Growth? The Caribbean Private Sector Needs More than an Oil Change.](#) Only 41% of Caribbean SMEs reported the introduction of a new product, while 59% of SMEs in the rest of the world’s small economies did so.

<sup>8</sup> In the OECS countries, energy cost between US\$0.27 and US\$0.39 kWh in 2015.

<sup>9</sup> <https://www.un-igrac.org/areas-expertise/small-island-developing-states-sids>.

digital marketplaces, strengthening of Business Support Organizations (BSOs) responsible for deploying innovation fund and technology readiness programs, and drafting of policy frameworks promoting digital and climate technology adoption, gender diversity and more generalized innovation practices in businesses; **and (iii) a technology adoption credit fund** to finance Lines of Credit (LOCs) for MSMEs' digital and climate technology adoption. The first two funds will be intermediated by public BSOs, and the third fund will be intermediated by public or private Financial Intermediaries (FIs) in the OECS eligible countries. The GCL is climate and gender aligned, as ten percent (10%) of total funds financed will be devoted to the creation of climate/green products and/or adoption of climate adaptation and mitigation technologies, and it is also ringfencing 17% of the innovation and technology readiness grants budget to be allocated to WOFs. In addition, the GCL will finance multiple activities targeted at increasing the participation of WOFs as beneficiaries of the sub-loans and responding to the unique needs of these businesses.

### III. Objectives and Justification of the TC

- 3.1 The objective of this TC is to support the recently created PSD in activities related to executing RG-L1160: "Strengthening Private Sector Development through Innovation in the Eastern Caribbean OECS Member Countries" (in preparation), including strengthening the capacity of the PSD to identify, design and execute the sub-loans, providing capacity building to the BSOs and FIs who will execute the sub-loans in monitoring outcomes, and developing a monitoring and evaluation framework for the sub-loans to be financed with this GCL.
- 3.2 During the preparation of RG-L1160, the team identified two executing agencies' risks that are being mitigated with this technical cooperation. The first, is a lack of experience by human resources in the CDB in designing innovation and technology adoption loans, resulting in delays in execution and impacting the program's schedule. To mitigate this risk, this TC will provide capacity building support to the PSD to identify, design and execute sub-loans related to this operation. The second, is a lack of experience of BSOs in borrowing countries in awarding, monitoring and evaluating innovation grants and technology readiness vouchers. This may result in inefficiencies in the allocation of program resources, leading to a poor achievement of outcomes. This TC will mitigate this risk by helping to identify capacity shortfalls in the BSOs, supporting design of sub-loans under RG-L1160 that include activities to address the capacity shortfalls, and producing standard guidelines for the Operations Regulations (OR) to be used in each of the sub-loans to guide the management of calls for innovative grants and technology vouchers. Moreover, the TC will strengthen the capacity of BSOs and FIs to collect baselines and monitor the outcomes being financed by each fund, including climate and gender milestone (tracking) indicators. BSOs and FIs consulted during loan preparation expressed the need for technical assistance to ensure gender and climate mainstreaming.
- 3.3 This TC is being processed separately to RG-L1160 due to timing related to identification of the funds to finance this project. RG-L1160 is expected to be approved by the IDB Board in September 2022 and by the CDB Board during December 2022. TC resources would be needed in January 2023 so as not to delay execution of the associated loan.
- 3.4 This TC is consistent with the IDB's Second Update of the Institutional Strategy 2020-2023 (AB-3190-2) and is strategically aligned to the cross-cutting challenge of:

(i) Productivity and Innovation, through the support provided to CDB to design loans for productive financing in the fields of innovation and technology adoption. The project is also aligned with the development challenges of: (i) Institutional Capacity and Rule of Law, by strengthening the capacity of BSOs and FIs to award grants and credit efficiently; (ii) Gender Equality, by stimulating the demand for grants amongst women-owned firms, and measure gender financing, as well as to monitor and evaluate the impact of innovation and technology readiness support to MSMEs, including the capacity to measure impact on women-owned firms; and (iii) Climate Change by promoting grants for climate technology adoption, and measure climate change financing. Due to the impact of these activities on the effectiveness and efficiency of BSOs and FIs in Eastern Caribbean countries, and the TC's contribution to strengthening the capacity of CDB's PSD to design and implement innovation and technology adoption programs, the operation is aligned with the objectives of the Ordinary Capital Strategic Development Program (GN-2819-14), specifically with the Priority Area of Effective, Efficient and Transparent Institutions (W2C). The operation is aligned with Vision 2025 - Reinvest in the Americas: A Decade of Opportunity (AB-3266), and its strategic goals of reactivating the productive sector, and strengthening governance and institutions. This TC specifically addresses the special needs of the smallest and most vulnerable countries in the Caribbean.

#### **IV. Description of activities/components and budget**

##### **4.1 Component 1. Strengthening the CDB's PSD (IDB US\$250,000, CDB US\$0).**

This component will engage one or more consultants to support the PSD in identifying, designing, and executing programs aligned with the three funds created by RG-L1160. This would entail: (i) Identification, planning, and executing conferences and workshops to promote and encourage demand for the program and participating in dialogue with governments and financial intermediaries in the six eligible beneficiary countries; (ii) Designing loan and related technical assistance programs to deliver innovation and/or technology adoption readiness grants or credit for technology adoption tailored to the specific needs of each country and the institutional capacity of BSOs and FIs to deliver grants and credit respectively; (iii) drafting program documents as required for the sub-loan and related technical assistance approval process, including plans of operations, results matrices, procurement plans, monitoring and evaluation plans and others, ensuring gender and climate change alignment; and (iv) supporting execution by overseeing program and related technical assistance implementation, ensuring baseline and ongoing collection of results indicators to assess progress on results (including on gender and climate change), and reviewing and providing recommendations on achieving milestones and on approving disbursement requests. To support BSOs in managing innovation grants and technology adoption readiness grants, the component could finance standard guidelines which would be included in all the Operating Regulations (ORs) of the sub-loans. Consultants are expected to work closely with existing PSD staff to transfer knowledge on designing innovation and technology adoption programs, including documentation of lessons learned. During design and execution, the consultants will ensure close coordination with regional initiatives complementary to RG-L1160, such as the Eastern Caribbean Partial Credit Guarantee and the World Bank's Caribbean Digital Transformation Project – Digital Caribbean.

##### **4.2 Component 2. Technical Assistance to Institutions Supporting MSMEs (IDB US\$0, CDB US\$250,000).** This component will engage consultants to build capacity

of OECS institutions – BSOs and FIs (public and private) supporting MSMEs to build awareness and deploy policies and programs that support innovation and digital technology adoption. Institutions that will execute sub-loan programs developed under Component 1 will receive priority. Capacity building will focus on methods to identify and transparently select projects to be financed, methods to mainstream gender equality and climate change financing, as well as methods for collecting data and monitoring the sub-loans to meet the requirements of CDB and IDB – for example collecting baselines and end of treatment data on variables that can help measure the impact of the program, for instance revenues and employment of firms, % awarded for climate finance, % awarded to finance WOFs and technical assistance to guide the transparent selection of beneficiaries (for example, general guidelines and training on managing competitive calls for innovation grants and technology readiness grants can be financed under this component). The component can also support the design of strategic plans and the development of specific policies and programs that enhance innovation or digital technology adoption in the private sector, as needed to complement the sub-loans.

- 4.3 **Component 3. Strengthening Capacity for Monitoring and Evaluation (IDB US\$20,000, CDB US\$5,000).** This component will strengthen the capacity of the PSD to monitor and evaluate the results of the sub-loans managed by the PSD that are being financed through IDB Operations. The component will finance an evaluation framework for RG-L1160, including a detailed theory of change, enabling assumptions and a detailed results matrix. It will support an understanding of the types of evaluation to be conducted, the data that needs to be collected (including baselines), a clarification of roles and responsibilities assigned to different officials assigned to each project, and the methods of regular data collection along with reporting to the IDB on projected outcomes, including those related to gender and climate change. Expenses to harmonize the evaluation framework of PSD with the evaluation framework of RG-L1160 and other IDB loans are eligible to be financed by the component. The component may also finance information systems to facilitate the collection, aggregation, monitoring and reporting of data to the IDB.<sup>10</sup> Finally, the component will finance dissemination and use of the information collected by the CDB to communicate success stories and lessons learned.
- 4.4 **Indicative Budget:** The total cost of the TC is US\$525,000 of which US\$270,000 will be financed by the IDB with resources from the Window 2, Priority Area 3: Effective, Efficient and Transparent Institutions (W2C) of the Strategic Program for Development financed with Ordinary Capital (OC-SDP), and US\$255,000 will be financed in cash contributions from the CDB.

#### Indicative Budget (US\$)

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Strengthening the CDB's Private Sector Division	250,000	0	250,000
Technical Assistance to Institutions Supporting MSMEs	0	250,000	250,000
Strengthening capacity for Monitoring and Evaluation	20,000	5,000	25,000

<sup>10</sup> The Knowledge platform developed to monitor Compete Caribbean projects can serve as an example.

	Total	270,000	255,000	525,000
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- 4.5 **Arrangements for TC supervision:** The project will be supervised by Sylvia Dohnert (IFD/CTI), team leader, and be monitored through monthly meetings between the PSD and the IDB, at which progress and lessons learned will be discussed.

## V. Executing agency and execution structure

- 5.1 The execution of this TC will be carried out by the Private Sector Division (PSD)<sup>11</sup> of the Caribbean Development Bank in coordination with the Competitiveness, Technology and Innovation Division (IFD/CTI) of the IDB.
- 5.2 The CDB contributes to the economic growth and sustainable and resilient development of 19 Caribbean countries. The CDB and the IDB have collaborated since 1977 with 9 approved operations worth US\$262 million, to support the economic and social development of six OECS member countries that are not members of the IDB, namely Antigua and Barbuda, the Commonwealth of Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines (hereinafter referred to as Eligible OECS Member Countries). A [2020 agreement between the Inter-American Development Bank \(IDB\), the Inter-American Investment Corporation \(IDB Invest\) and CDB](#) reinforces their commitment to collaboration, and allows the IDB to finance, through the CDB, loans and technical assistance projects that support the economic growth and development of the borrowing countries of the CDB that are not members of the IDB. The CDB partners with the IDB, the United Kingdom and Canada to support private sector development through the [Compete Caribbean Partnership Facility \(CCPF\)](#), which includes these Eligible OECS Member Countries as beneficiaries. In addition to RG-L1160, the CDB is executing two recent IDB loans that include components supporting MSMEs in these countries: [5156/OC-RG](#), approved in 2020 for US\$50 million, which provides US\$24 million for MSMEs COVID-19 recovery, and [5414/OC-RG](#), approved in 2021 for US\$50 million, which provides US\$10 million to finance disaster resilience in MSMEs.
- 5.3 To expand the CDB's action regarding private sector development in the region, the CDB created the Private Sector Division (PSD) in 2021. The PSD absorbed the structure and experience of a Private Sector Unit that had operated within CDB for many years lending to Development Financial Institutions (DFIs) and merged it with some other pre-existing units such as the Caribbean Technological Consultancy Services (CTCS) Facility and a MSME unit. Through its MSME Unit and the Caribbean Technological Consultancy Services (CTCS) Facility, the CDB has demonstrated its ability to coordinate and motivate action across diverse stakeholders related to private sector development in the Caribbean. Under the CTCS program, the CDB has a long experience of providing technical assistance to businesses and institutions to increase productivity by improving efficiency.
- 5.4 The first disbursement of the resources of the TC shall be subject to the fulfillment by the Executing Agency, to the satisfaction of the Bank, of the following conditions

<sup>11</sup> This Division offers three lines of support to the private sector: a) lines of credit to development financial institutions to increase access to finance; b) direct technical assistance to the private sector through the Caribbean Technological Consultancy Services (CTCS) Facility; and c) an EU financed program to support the export-oriented private sector in taking advantage of the European Partnership Agreement.

precedent: the Global Credit Loan to be provided by the Bank (RG-L1160) shall have been approved by the Executing Agency's Board of Directors.

- 5.5 **Procurement.** The Caribbean Development Bank, through its recently renewed agreement with the IDB, can execute IDB technical assistance funds and make these available to non-IDB member countries. Pursuant with the "[Agreement between the Inter-American Development Bank, Inter-American Investment Corporation and the Caribbean Development Bank for Mutual Cooperation in the Caribbean Region](#)", CDB Procurement Policies and Procedures will apply for the procurement of goods, works, consulting services and services other than consulting services, financed with resources of the IDB, or resources under its administration, and made available to CDB for specific projects. Eligibility to participate in the corresponding procurement process will be extended to: (i) firms and individuals from and goods originating in CDB member countries which are not members of the IDB; and (ii) firms and individuals from and goods originating in IDB member countries which are not members of CDB.
- 5.6 **Execution period and unit of disbursement.** The execution and disbursement period will be 36 months and the Unit of Disbursement Responsibility (UDR) will be CBA.

## **VI. Major issues**

- 6.1 There is the risk that limited bandwidth of the PSD in terms of manpower may put pressure on the consultant(s) hired under this project to utilize time towards other PSD obligations. Component 1 of this project is expected to contract a dedicated resource working within the PSD to support identification and design of RG-L1160. Any additional knowledge services required by the PSD to design those sub-loans will be supported with CDB budget.
- 6.2 Monitoring and evaluation is important to both the CDB and the IDB. For the PSD, a sound monitoring and evaluation framework can provide data to improve design and implementation of Lines of Credit (LOCs) and other products. It is envisioned that the monitoring and evaluation framework/mechanisms financed under this project will help the CDB better report on the impact of all IDB loans in the Eastern Caribbean managed by the PSD, as well as assist the PSD strategically.

## **VII. Exceptions to Bank policy**

- 7.1 There are no exceptions to Bank policy.

## **VIII. Environmental and Social Strategy**

- 8.1 This TC will not finance feasibility or pre-feasibility studies of investment projects or associated environmental and social studies, which is why it does not have applicable requirements of the Bank's Environmental and Social Policy Framework (ESPF).

### **Required Annexes:**

[Request from the Client - RG-T4080](#)

[Results Matrix - RG-T4080](#)

[Terms of Reference - RG-T4080](#)

[Procurement Plan - RG-T4080](#)