

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**REGIONAL**

**STRENGTHENING PRIVATE SECTOR DEVELOPMENT THROUGH INNOVATION  
IN THE EASTERN CARIBBEAN OECS MEMBER COUNTRIES**

**(RG-L1160)**

**LOAN PROPOSAL**

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ABBREVIATIONS	
AFS	Audited Financial Statements
BSO	Business Support Organization
CBA	Cost Benefit Analysis
CC	Climate Change
CCPF	Compete Caribbean Partnership Facility
CDB	Caribbean Development Bank
CTCS	Caribbean Technological Consultancy Services
DEM	Development Effectiveness Matrix
DFI	Development Financial Intermediary
E&S	Environmental and Social
EA	Executing Agency
ESMS	Environmental and Social Management System
ESPF	Environmental and Social Policy Framework
FI	Financial Intermediary
FM	Financial Management
GCL	Global Credit Loan
GDP	Gross Domestic Product
GHG	Greenhouse Gases
ICT	Information and Communication Technology
IDB	Inter-American Development Bank
IDB Invest	Inter-American Investment Corporation
IFC	International Finance Corporation
LAC	Latin America and the Caribbean
LOCs	Lines of Credit
MEP	Monitoring and Evaluation Plan
MSMEs	Micro, Small and Medium Enterprises
NPV	Net Present Value
OECS	Organization of Eastern Caribbean States
OR	Operating Regulations
PBA	Performance Based Allocation
PCR	Project Completion Report
PSD	Private Sector Division
RM	Results Matrix
SIDS	Small Island Developing States
SMEs	Small and Medium Enterprises
TC	Technical Cooperation
TFP	Total Factor Productivity
UN	United Nations
WB	World Bank
WOF	Women-Owned Firms

**PROJECT SUMMARY**  
**REGIONAL**  
**STRENGTHENING PRIVATE SECTOR DEVELOPMENT THROUGH INNOVATION IN THE EASTERN**  
**CARIBBEAN OECS MEMBER COUNTRIES**  
**(RG-L1160)**

Financial Terms and Conditions				
Borrower			Flexible Financing Facility <sup>(a)</sup>	
Caribbean Development Bank			Amortization period:	23.5 Years
Executing Agency			Disbursement period:	6 Years
Caribbean Development Bank			Grace period:	7 Years <sup>(b)</sup>
Source	Amount (US\$)	%	Interest rate:	SOFR Based
IDB (Ordinary Capital):	20,000,000	100	Credit fee:	(c)
			Inspection and supervision fee:	(c)
			Weighted Average Life (WAL):	15.25 Years
Total:	20,000,000	100	Currency of approval:	Dollars of the United States of America
Project at a Glance				
<p><b>Project Objective:</b> The general development objective of this program is to increase the productivity of Micro, Small and Medium Enterprises (MSMEs) in the Organization of Eastern Caribbean States' (OECS) countries. The specific development objectives of this program 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.</p> <p><b>Special Contractual Condition prior to the First Disbursement:</b> The approval and entry into effect of the Operating Regulations (<a href="#">OR</a>), in accordance with the terms and conditions previously agreed upon between the Borrower and the Bank (¶3.9).</p> <p><b>Special Contractual Conditions for Execution:</b> The Borrower shall submit to the Bank: (i) the draft Sub-loan proposal for the Bank's non-objection, including the Sub-loans operating regulations for Component 1 Sub-loans, prior to the approval of each Sub-loan; and (ii) a copy of the signed Sub-loan agreement between the Borrower and the respective Eligible Sub-borrower, along with the approved operating regulations for Component 1 Sub-loans, prior to the first disbursement of each Sub-loan (¶3.10).</p> <p><b>Special Environmental, Social, Health and Safety Contractual Clauses:</b> the operation shall finance projects classified as Category C, and exclude projects classified as Category A or B according to the Bank's classification system under the Bank's ESHS policies (¶3.11).</p>				
<b>Exceptions to Bank Policies:</b> None.				
Strategic Alignment				
<b>Challenges<sup>(d)</sup>:</b>	SI <input type="checkbox"/>		PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>
<b>Cross-Cutting Issues<sup>(e)</sup>:</b>	GE <input checked="" type="checkbox"/>	and DI <input type="checkbox"/>	CC <input checked="" type="checkbox"/>	and ES <input type="checkbox"/>
IC <input checked="" type="checkbox"/>				

<sup>(a)</sup> Under the Flexible Financing Facility (document FN-655-1), the borrower has the option to request modifications to the amortization schedule, as well as currency, interest rate, commodity, and catastrophe protection conversions. In considering such requests, the Bank will take into account operational and risk management considerations.

<sup>(b)</sup> Under the flexible repayment options of the Flexible Financing Facility (FFF), changes in the grace period are possible as long the Original Weighted Average Life (WAL) and the last payment date, as documented in the loan agreement, are not exceeded.

<sup>(c)</sup> The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors during its review of the Bank's lending charges, in accordance with the relevant policies.

<sup>(d)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(e)</sup> GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. PROJECT DESCRIPTION AND RESULTS MONITORING

### A. Background, problem addressed, and justification

- 1.1 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 goals of its new PSD, the CDB requested a Global Credit Loan (GCL) to support innovation and technology adoption including climate action in Micro, Small and Medium Enterprises (MSMEs). 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 Organization of Eastern Caribbean States (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 IDB, the 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. This operation will complement two recent IDB loans to CDB that include components supporting MSMEs in these countries: [5156/OC-RG](#), approved in 2020 for US\$50 million, 29.91% disbursed, which provides US\$24 million for MSMEs COVID-19 recovery, and [5414/OC-RG](#), approved in 2021 for US\$50 million, 0% disbursed, which provides US\$10 million to finance disaster resilience in MSMEs.
- 1.2 **Macroeconomic context.** The six OECS' economies are expected to grow by 6.9% in 2022, compared to 2.8% in 2021, and by 5.2% and 4.1% in 2023 and 2024 respectively, driven by the revival of the tourism sector and expectations of accelerated implementation of several large infrastructure projects. St. Lucia recorded the highest economic growth of 6.8% in 2021 followed by Grenada, Antigua and Barbuda, and Dominica, which grew by 5.6%, 4.8%, and 3.7% respectively. However, the economies of St. Vincent and the Grenadines, and St. Kitts and Nevis contracted by 0.5% and 3.6% respectively [1].<sup>1</sup> The debt-to-Gross Domestic Product (GDP) ratio for the sub-region rose from 85.3% in 2020 to 87.0% in 2021. The debt-to-GDP is projected to decrease to 83.4% in 2022 due to an improvement in tourism activity given the ease in curfew and travel restrictions.
- 1.3 **Indications of long-term stagnation.** Prior to the pandemic shock, the CDB's Borrowing Member Countries grew on average at 1.9% over the previous decade, while other Small Island Developing States (SIDS) grew at just over 4% [2]. The subset of Eligible OECS Member Countries' GDP per capita grew even more slowly, at an annual average of 1.45% between 2001 and 2019. In

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<sup>1</sup> See [OEL#2](#).

2020, these countries' GDP contracted by 13.7% on average, due to COVID-19's impact on tourism. Although like other Caribbean countries, the small size of these OECS countries 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>2</sup> since the 1990s identified lower Total Factor Productivity (TFP)<sup>3</sup> growth as the most important determinant of this growth gap [3]. Globally, TFP accounts for most of the growth differences across countries [4].

- 1.4 **TFP, business innovation, and digital transformation.**<sup>4</sup> One of the drivers of TFP at the economy level 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 [5], thus increasing labor productivity at the firm level [6].
- 1.5 Caribbean MSMEs, defined as having less than 50 employees and annual sales of up to US\$750,000,<sup>5</sup> are estimated to represent between 70% and 85% of total enterprises in the Caribbean, contribute between 60% and 70% of GDP and 50% of employment, and are a significant factor for income generation and poverty reduction [7]. In the Eastern Caribbean countries, MSMEs are concentrated in services, which represents from 60% to 80% of these economies' GDP, and is dominated by the hotels and restaurants, construction and real estate, wholesale and retail trade, financial intermediation, and education sectors. The rest of MSMEs are in the agriculture and manufacturing sectors and contribute to these countries' goods' export baskets [8].
- 1.6 Caribbean businesses invest significantly less in innovation in products and services than those of other small world economies, and this difference is concentrated in Small and Medium-sized Enterprises (SMEs) [9].<sup>6</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. In addition, fewer OECS businesses are potentially innovative when compared to the rest of the Caribbean (37% against 63%) – meaning that they plan to introduce an innovation in the next 3 years and report facing knowledge, market, finance/cost, or policy/regulatory barriers [10]. Notably, 99% of potentially innovative OECS businesses are SMEs, indicating that barriers to innovation affect SMEs to a greater extent than larger firms [11].<sup>7</sup>

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<sup>2</sup> Defined as economies with less than 3 million in population.

<sup>3</sup> TFP is the portion of output not explained by the amount of inputs used in production ([The New Palgrave Dictionary of Economics](#)).

<sup>4</sup> Following the OSLO Manual, for this operation, innovation is defined as “a product or process, marketing or organizational method that is new to the business”, digital technology adoption as “introducing methods for information processing and communication”, and climate technology adoption as the adoption of new technologies that resulted in: (a) reduced material and energy use or reduced/avoided GHG emissions; or (b) increased recycling of waste, water or materials.

<sup>5</sup> This definition is aligned to the CDB's definition of MSMEs.

<sup>6</sup> 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>7</sup> Small firms are defined as those with less than 20 employees, medium firms are those between 20 and 100 employees, and large firms as those with more than 100 employees.

- 1.7 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%). Although digital technology adoption increases in OECS businesses of large size, there is a surprising high percentage of large OECS businesses that intend to adopt digital technology but face barriers (32%). This has important policy implications as in the Caribbean, marginal changes in the productivity of businesses/sectors with large numbers of employees (such as tourism) can have an important effect on aggregate productivity [12].
- 1.8 Globally, businesses typically underinvest in innovation due to externalities related to the public good aspects of the knowledge created of how to make new goods and services. In addition, asymmetric information between innovators and suppliers of finance, where businesses are afraid to reveal their innovative ideas for fear of leakage to their competitors, coupled with the uncertainty typical of an innovative project, create a situation where it is difficult to adequately assess its risk and therefore to price it, limiting market finance for innovation [13].
- 1.9 In terms of digital and climate technology adoption, market failures related to technological readiness – lack of knowledge of which technologies to choose and how to deploy it – affects technology adoption, especially among SMEs. Smaller businesses are dragged back by a lack of internal resources and awareness, skills gaps and/or financing issues, and the gap in SMEs diffusion rates as compared to large firms is a recurrent feature in the technology adoption literature. SMEs gaps in adoption increase when technologies become more sophisticated or mass matters [14]. This “size penalty” inhibiting technology adoption is particularly relevant for the OECS, as businesses there are smaller than non-OECS, Caribbean businesses [15], which are already smaller and face distinct constraints to growth than businesses in the rest of the world [16].<sup>8</sup>
- 1.10 Businesses in the OECS intending to innovate and/or to adopt digital technology experience barriers consistent with the market failures described in ¶1.8 and ¶1.9. Ranked by prevalence, OECS businesses report the following barriers: (i) the level of available financial resources for innovation/technology adoption (63%); (ii) the lack of skills in the labor force required for innovation/digital technology adoption (44%); (iii) the degree of self-confidence for innovation/technology adoption (35%); and (iv) the relationship between cost to innovate/adopt technology and market size (33%). Only 38% of OECS businesses felt confident that they can choose the most appropriate technological responses to suit their needs. Businesses perceived COVID-19 as having made these barriers even more significant. These barriers impact a sizeable number of firms - more than a third of OECS businesses are potentially innovative (37%) and nearly half are potentially digitally innovative (49%) – meaning that they intend to innovate or adopt digital technology but are stopped by these barriers. These barriers affected small and medium businesses more severely, but even

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<sup>8</sup> Wagner (2015), hypothesizes that Caribbean businesses grow slower than businesses in other parts of the world due to: small markets that amplify other market failures preventing slow investments that pay off only in the case of scale-up, the avoidance of even modestly risky projects given the lower expected return of projects operating in very small markets, and W shaped curves, which makes small investments unprofitable but large ones (to achieve a critical mass that allows businesses to reach external markets) much more profitable – despite the latter having much more uncertainty tied to them.



32% of large businesses reported barriers to digital technology adoption. Moreover, nearly three quarters (73%) of potentially innovative or digitally innovative businesses reported difficulties accessing finance, and their productivity was 32% lower than non-credit constrained, potentially innovative, and digitally innovative businesses [17].

1.11 Recent data suggests better performance of OECS businesses that innovate or digitize. Those businesses in the OECS that had innovated and/or adopted digital technology sold, on average, 29% more per worker and were 20% more productive than those that had not innovated nor adopted digital technology. Moreover, those that had adopted digital technology perceived that it had significantly opened access to new markets and increased their capacity to produce goods and services [18]. At the Caribbean level (including the OECS), recent research indicates that businesses that invested in general innovation (product, process, organizational and marketing) before COVID-19 improved their technical efficiency – meaning their productivity against the frontier – in comparison to those that did not and were also more resilient during the pandemic. The authors conclude that efforts to support innovation in Caribbean businesses may not only improve businesses' productivity but also make them more resilient to other types of sudden, external shocks that the Caribbean is prone to, such as climatic events [19].

1.12 **Climate action.** Global warming negatively affects GDP per capita and productivity growth. A study utilizing a panel dataset of 138 United Nations (UN) countries for the period 2000-2017, including Caribbean countries, found that if global temperatures rise 1.5°C, productivity will decrease by 64%, with the most severely affected regions being the tropical areas [20]. The social investment required to build the resilience of the population and promote a just transition involves spending of between 5% and 11% of GDP [21]. Latin America and the Caribbean (LAC) MSMEs represent 99.5% of the region's enterprises and generate 61.1% of employment [22]. Although MSMEs individually generate marginal emissions, taken together they generate a very significant amount. The OECD estimates that SMEs account for 60% to 70% of the Greenhouse Gases (GHG) emissions of the industrial sector [23]. On the other hand, MSMEs are highly vulnerable to the adverse effects of Climate Change (CC), therefore efforts to increase their adaptive capacity to ensure business continuity, competitiveness and avoid productivity losses are crucial. Studies show empirical support for the productivity inducing effect of climate technology adoption (either reducing Carbon Dioxide or resource and energy efficiency enhancing technologies) when they are also accompanied by organizational change [24]. In the OECS countries, only 29% of businesses had adopted climate technology by 2020 [25]. This, despite their very high costs of energy [26],<sup>9</sup> the resource scarcity typical of SIDS,<sup>10</sup> and the new and emerging environmental issues threatening SIDS [27].

1.13 Globally, even SMEs committed to climate action experience barriers related to technological readiness and access to finance. A survey of nearly 200 SMEs affiliated with the UN's climate hub found that the top two reasons why SMEs are not taking climate action were the absence of knowledge/skills (63%) and lack of

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<sup>9</sup> In the OECS countries, energy cost between US\$0.27 and US\$0.39 kWh in 2015.

<sup>10</sup> <https://www.un-igrac.org/areas-expertise/small-island-developing-states-sids>.

funds (48%) [28]. For OECS businesses, knowledge barriers prevent accessing financing for climate action, even when it is available. For example, the Agricultural and Industrial Development Bank of Dominica offered an emissions reduction Lines of Credit (LOCs) that had scarce take-up because businesses lacked the knowledge to develop fundable projects [29]. IDBLab work in the OECS indicates that on the climate mitigation front there is an opportunity to expand technical assistance services for businesses to become compliant with environmental certifications and/or decrease their energy usage.

- 1.14 **Gender considerations regarding innovation and technology adoption.** Gender diversity in Caribbean businesses positively impacts innovation and digital and environmental technology adoption [30]. In the Caribbean, the representation of women at the management level in private companies is above the average of LAC and of other global benchmarks, and even higher in the OECS countries (See [OEL#4](#)).
- 1.15 Notwithstanding, an analysis of the situation of OECS Women-Owned Firms (WOFs) regarding innovation and technology adoption as compared to their men-owned counterparts,<sup>11</sup> has identified four gender gaps: (i) lower awareness of innovation and technology adoption programs (12.2% vs. 17.7%); (ii) lower percentage of potentially innovative WOFs (19.7% vs. 30.8%); (iii) lower percentage of potentially digitally innovative WOFs (38.7% vs. 51%); and (iv) lower achievement of climate improvements as a result of the adoption of climate technology in WOFs (5.21% vs. 23.37%). For all other attitudes towards innovation and/or technology adoption, the gaps between WOFs and men-owned firms are not significant.<sup>12</sup> The barriers that potentially innovative WOFs and men-owned firms confront are also similar in prevalence, leading to the conclusion that lack of awareness may be hampering WOF's interest in innovation and technology adoption.<sup>13</sup> In terms of access to credit, the data shows that the majority of OECS WOFs and men-owned firms are credit constrained (more than 60% in each category), with no significant differences between the two categories. Moreover, nearly three quarters of men-owned and WOFs with the potential to adopt technology are credit constrained, indicating the importance of this barrier to technology adoption.
- 1.16 **Empirical evidence.** Across the world, market failures to innovation and technology adoption are addressed through public programs that subsidize these activities [31]. Multiple impact evaluations of these programs, including in LAC, have demonstrated a positive effect in the development of new products and services, increased employment and wages, and increased TFP, as well as numerous positive spillovers on other firms and sectors ([OEL#5](#)). Research focused on the Caribbean evaluating the characteristics of businesses that participate in business support programs, and the impact of several types of support programs on participants, found that innovation support programs in the Caribbean had important effects on businesses innovation expenditure, sales,

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<sup>11</sup> See [OEL#4](#).

<sup>12</sup> For example, 43% of OECS WOFs are innovative, as compared to 39% of OECS male owned firms, and 9% of OECS WOFs are digitally innovative, as compared to 7% of OECS men-owned firms.

<sup>13</sup> The analysis was also done comparing women-led and men-led firms, and the results did not differ from the above. However, since the gender of ownership is a more permanent condition than the gender of management, the team decided to focus on women-owned, rather than women-led firms both for the analysis and the recommendations.

and the ability to develop new goods and services or production processes, as well as the probability of achieving the intended goals of the program [32].

- 1.17 **Legal and institutional framework.** The six Eastern Caribbean countries form part of an economic union with a common currency, a single Central Bank, and free movement of labor, capital and goods. Since 2010, Eastern Caribbean countries have offered business support to firms through public entities at the national level that assist with investment promotion, export development, and skills development [33]. Examples of these Business Support Organizations (BSOs) are investment and export promotion agencies, small business development centers, public research institutions, quality infrastructure services, community colleges and universities. These BSOs are affiliated to Ministries of Business, Trade or similar, with the educational ones affiliated to the Ministries of Education. In addition, five of the six countries have Development Financial Intermediaries (DFIs) that provide financing to MSMEs. Some of the DFIs also provide technical assistance. DFIs can act as BSOs in the context of this operation [34].
- 1.18 Despite the very small market size of OECS economies amplifying market failures, OECS countries lack public programs promoting innovation and technology adoption. Although every country has multiple BSOs, their service offering is focused on building the day-to-day operational capacity of MSMEs, such as management, record-keeping, and financial statements. A few BSOs support new businesses to develop business plans, yet entrepreneurship support services as well as the range of services is limited. Though a few tertiary institutions conduct research, there are few mechanisms either internally or in partnership with the private sector to bring these ideas to market. Businesses cite the inexistence of testing facilities and prototyping services for new products, and a high cost of protecting intellectual property. A few countries lack MSMEs policy frameworks to organize support strategically and functionally [35]. Moreover, up to 2021, OECS BSOs had not prioritized technology adoption as an area of intervention [36].
- 1.19 COVID-19 has amplified the demand for business innovation and technology adoption services in the OECS, yet BSOs are unable to meet this demand. In a recent study, Eastern Caribbean BSOs reported that since COVID-19, between 30% to 40% of their clients request assistance for innovation, and/or digital and environmental technology adoption, yet their current supply is focused on general interventions such as innovation culture. BSOs tend to be small – with less than 10 staff on average – catering to between 50 and 300 small clients<sup>14</sup> who, on average, have revenues of less than EC\$100,000.<sup>15</sup> Therefore, more specific services such as innovation training, matching grants, vouchers, technology assistance programs, and digital marketplaces would require strengthening of the BSOs' resources and capacity, both in traditional and non-traditional sectors [37].

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<sup>14</sup> On the positive side, they have a large clientele of WOFs, who account for more than half of their clients (Carrasco, 2022).

<sup>15</sup> [Since 1976, US\\$1 = EC\\$2.7](#). Last updated June 28, 2022.

- 1.20 A survey of OECS BSOs MSMEs clients conducted for this operation confirmed that nearly all were planning to innovate in the next 3 years, and nearly two thirds in a way that reduced carbon footprint or helped them adapt to CC. These MSMEs have a very low use of digital technology and high interest in digitalizing, especially core functions. Their preferred types of support to develop new products and services, including climate products, is innovation grants, followed by training of managers and key personnel. To improve digital and climate technology adoption their preferred type of support is training, followed by consultants to help identify improvement opportunities. Their main barriers to technology adoption are lack of resources to acquire technology, and lack of trained personnel, and they report difficulties in accessing credit for working capital and investment as their main barrier to growth [38]. A survey of OECS MSMEs that already borrow from Eastern Caribbean Financial Intermediaries (FIs)<sup>16</sup> (implying that they are not credit constrained), revealed that these MSMEs also have low levels of digitalization, express a critical need for digital technology adoption to help improve their competitiveness, and would need technical assistance and consultancy support to accelerate the process [39].
- 1.21 Occasionally, the Eastern Caribbean countries have offered donor financed programs to support innovation and technology adoption.<sup>17</sup> These appear to have been over-subscribed: only 8% of OECS businesses that have applied to technology adoption and management programs report having gotten support (compared to 15% in the rest of the Caribbean), nevertheless a fifth of OECS businesses stated they required technology adoption and management programs to ramp up at the end of the COVID-19 crisis [40].
- 1.22 Finally, generalized difficulties in access to financing exacerbate low private investment in innovation and technology adoption in the OECS. Based on data obtained from the SME Finance Forum [41], there are 19,841 MSMEs in the Eligible CDB Member Countries, with a collective finance gap of US\$1.1 billion contrasting a potential demand for financing of US\$1.6 billion as measured in 2017. MSMEs financing is usually concentrated in short-term credit lines, which is not suitable to absorb and sustain investments in innovation or technology adoption. Furthermore, the pandemic has likely aggravated MSMEs' access to credit in Eligible OECS Member Countries, just as it has in the rest of the Caribbean [42].
- 1.23 On the supply side, the financial system in Eligible OECS Member Countries is comprised of 34 banks (of which 23 are of foreign capital and 11 are locally owned) and 15 non-bank FIs; in addition, there are 47 credit unions, 132 insurance companies and 29 international financial services sector banks. Each Eligible OECS Member Country has a DFI, except for St. Vincent and the Grenadines [43]. Domestic credit to the private sector in these countries ranges from 50.2% to 69.2% of GDP as of 2020, which is comparable to the reference of 60.3% for LAC, however significantly below the world, which registers 146.7% of credit to GDP [44]. Based on the survey of FIs borrowers conducted for this operation, MSMEs obtain more than 50% of their credit from commercial

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<sup>16</sup> For this operation, FIs refer to both DFIs and commercial banks.

<sup>17</sup> See Martinez (2019), for example, the WB financed CARCIP program for Grenada, St. Lucia, Dominica and St. Vincent and the Grenadines.

banks, followed by DFIs and credit unions. MSMEs access finance at the lowest cost from DFIs, then commercial banks and credit unions.

- 1.24 **Demand for these interventions.** With CDB already focused on providing financing relief and recovery for MSMEs in the OECS countries and on enhancing their disaster resilience (as mentioned in ¶1.1 through IDB loans [5156/OC-RG](#) and [5414/OC-RG](#)), this operation provides support to MSMEs for productivity enhancing investments related to innovation and technology adoption. Two studies were commissioned to better understand the potential demand from MSMEs for: (i) subsidies (intermediated by BSOs); and (ii) financing products (intermediated by FIs) to support innovation and technology adoption, including MSMEs' appetite for digital transformation and climate action. The main findings of both studies are: (i) more than 80% of surveyed MSMEs plan to introduce a new product or service to the market, or a process innovation in the next 3 years, with a proportion of them interested in climate products/innovation; (ii) MSMEs have low levels of digitalization, have a high interest in increasing their adoption of digital and climate technology, and state that they need technical assistance support for training and consultancy services to understand which technologies are suitable to their business and how to adopt them; (iii) MSMEs are willing to borrow up to EC\$500,000 (US\$187,000) for digital and climate technology adoption, and prefer a stapled loan option that allows up to 80% for working capital within the total loan amount (FIs are willing to include up to 60% of working capital in those loans); (iv) FIs are highly interested in this operation,<sup>18</sup> and in offering loans to clients who have received technical assistance for innovation and technology adoption, as they regard those subsidies as highly complementary to the proposed financing product; and (v) BSOs already refer some of their clients to FIs, and are interested in enhancing this collaboration [45][46].
- 1.25 **CDB experience in the OECS region.** Under its Caribbean Technological Consultancy Services (CTCS) program, CDB has provided technical assistance to businesses and institutions to increase productivity by improving efficiency. In addition, through its Special Development Fund and other sources of funding, CDB has done significant work in improving the business ecosystem for MSMEs, including improving their access to credit through blended resources, which have been intermediated through DFIs and has provided capacity building of MSMEs primarily through CDB's CTCS program.
- 1.26 **IDB experience in the OECS region.** The understanding of innovation and technology adoption patterns and barriers encountered by OECS businesses, the mechanisms through which technology readiness services can be delivered to businesses in different sectors, and the strengths and weaknesses of national and regional BSOs in delivering innovation, technology readiness, and other business support services to their clients have been developed through numerous technical cooperation projects financed in the Caribbean and the OECS by the CCPF (See [OEL#7](#)). The operation will scale-up in the OECS the provision of either innovation grants or technology readiness services of the

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<sup>18</sup> FIs in the OECS responding to a survey conducted for the design of this operation manifested that they would need up to a combined EC\$35 million (US\$13 million) to provide loans to MSMEs for digital and environmental transformation between 2022 and 2027 ([OEL#10](#)).

following Technical Cooperations (TCs): “Technology Extension Services in the Caribbean” ([ATN/CN-17624-RG](#), client support TC, approved in 2019 for US\$813,340), which has provided technology readiness consultancy services to businesses in the manufacturing, agro-processing and tourism sectors, “Strengthening the Entrepreneurship and Innovation Ecosystems in the OECS” ([ATN/CO-17896-RG](#), client support TC, approved in 2020 for US\$600,000), which has supported a number of digitally based start-ups with incubation and acceleration services, “Design and Implementation of a Regional Ag-Tech Pilot Project for the Caribbean” ([ATN/CO-18235-RG](#), research and dissemination TC, approved in 2020 for US\$500,000), which has provided ag-tech businesses incubation and seed capital, “Technology Extension Services (TES) in the Caribbean Blue Economy and Essential Sectors” ([ATN/CO-19130-RG](#), client support TC, approved in 2021 for US\$600,000), which is providing technology readiness consultancy services to businesses in the blue economy, as well as those essential sectors that were kept open during the pandemic lockdowns (e.g. food and health services), and “Support to Caribbean Startups and Innovative Firms in the Blue Economy” ([ATN/CO-18718-RG](#), client support TC, approved in 2021 for US\$900,000), which is providing incubation and acceleration services, plus innovation grants to innovative startups in the blue economy.

- 1.27 **Complementarity with IDB Group operations.** “Establishment of Credit Bureau in the Eastern Caribbean Currency Union” ([ATN/CO-17323-RG](#), client support TC, approved in 2019 for US\$150,000) will complement Component 2 of this operation by allowing OECS FIs to better evaluate the credit risk of MSMEs, while “The Caribbean Digital Transformation Institute” ([ATN/OC-19079-RG](#), client support TC approved in 2021 for US\$680,000) will provide OECS BSOs with data on the digital maturity of businesses in their country and complement their technology readiness offering with online courses. The operational support TC “Strengthening Management of Projects to Support Private Sector Innovation and Digital Transformation in the Eastern Caribbean” ([ATN/OC-19460-RG](#), approved in 2022 for US\$270,000) will support the design of the sub-loans and strengthen executing agencies’ capacity to monitor and evaluate the operation.
- 1.28 The operation will complement and has benefitted from lessons learned from IDB Lab’s EcoMicro OECS projects which support FIs to design and pilot climate finance products for MSMEs ([ATN/CN-17185-RG](#), client support TC approved in 2018 for US\$280,000; [ATN/CN-17251-RG](#), client support TC approved in 2019 for US\$280,000) as well as the regional EcoMicro COVID-19 recovery and resiliency operation, which supports the digitization of Caribbean FIs and their MSMEs clients ([ATN/CN-18554-RG](#), client support TC approved in 2021 for US\$910,000). Finally, the operation will complement the two previously mentioned IDB operations in the OECS that finance MSMEs for COVID-19 recovery and natural disaster resilience (¶1.1).
- 1.29 **Lessons learned from similar IDB operations.** The IDB Group has completed numerous projects to support private sector development, innovation and digital transformation in the LAC region (See [OEL#8](#)). Lessons learned guiding the design of this operation include: (i) addressing the ecosystem comprehensively, while helping to solve identified market failures; (ii) tackling financing gaps through public-private interventions by designing two components with



complementary services to MSMEs; (iii) keeping stakeholders united with a common objective and working under a governance structure, by creating a Steering Committee in each country that will ensure alignment between both components; (iv) strengthening the capacity of the actors in the ecosystem, by including BSOs strengthening as one of the activities under this operation; and (v) providing a more diversified financing system for the private sector to innovate, thrive and expand, through the combined activities of both components. Moreover, IDB projects related to climate mitigation demonstrate that country and client demand are at the core of driving climate action - this operation will build capabilities in BSOs staff on environmental and climate mitigating technologies as part of their institutional strengthening.

1.30 **Lessons learned from previous work with CDB.** Project Completion Reports (PCR) of the two completed GCLs to the CDB ([926/OC-RG](#); [975/SF-RG](#) approved in 1996 for US\$37 million, and [1108/SF-RG](#) approved in 2002 for US\$20 million) highlight the following aspects that contributed to effective program implementation: (i) sound project design process as reflected in the high quality of CDB's project appraisal documents; (ii) project consistency with country strategies; (iii) CDB's responsive approach to clients, as reflected by flexible use of the sub-loans to address changing priorities in the borrowing countries; and (iv) high quality supervision by CDB to ensure that project outputs were achieved. In addition, and even though this operation will only finance Category C projects, the GCLs currently in implementation ([2798/BL-RG](#) approved in 2012 for US\$20 million, 90.65% disbursed; [3561/OC-RG](#) approved in 2015 for US\$20 million, 40.08% disbursed; [5156/OC-RG](#); and [5414/OC-RG](#)) also signal the importance that all parties agree on the Environmental and Social (E&S) requirements applicable to sub-loans. The CDB's E&S Review Procedure includes the International Finance Corporation (IFC) Performance Standards, which overlap with the IDB's Environmental and Social Policy Framework (ESPF). GCLs in execution ([5156/OC-RG](#)) benefitting MSMEs through DFIs has found a more limited number of eligible DFIs than originally expected, and a need by the DFIs for technical assistance to mainstream CC and gender into the LOCs. This current program is addressing this issue by expanding the universe of FIs to include commercial banks, while [ATN/OC-19460-RG](#) includes a technical assistance component for FIs to assist with monitoring climate financing.

1.31 **Coordination with other donors.** The World Bank (WB) has a US\$94 million operation in four of the six beneficiary countries [47] focused on strengthening digitization of government services, expanding the supply of digital skills, basic training of businesses on digital technologies, and a regional component focused on the enabling environment for digital transformation. Discussions with the WB have confirmed the complementarity of this operation, which will provide more specific and intense support for technological readiness to businesses, finance their technology adoption, and benefit from the enabling environment for digital transformation and increased availability of digital skills financed by the WB operation. The Global Green Growth Institute is providing interest free loans for green innovation to some OECS entrepreneurs, which will benefit the current operation by building awareness and a pipeline of climate innovators that could apply for innovation grants under this operation. The operation will complement the BSO institutional strengthening activities of the Organization of American States under their Small Business Development Center program. The team

coordinates with all other donors providing support to these topics through the UN's Eastern Caribbean Development Partners Group sub-group on "Digital Economy and Innovative Financing".

- 1.32 **Strategic alignment.** The program is consistent with the IDB's Second Update of the Institutional Strategy 2020-2023 (AB-3190-2) and is strategically aligned to the development challenge of Productivity and Innovation, through the support provided to MSMEs in OECS countries for productive financing in the fields of innovation and technology adoption. The operation is also aligned with the cross-cutting issues of: (i) Institutional Capacity and Rule of Law through financing from Component 1, Technology Adoption Readiness Grants Fund, which will strengthen the capacity of public entities to provide effective and transparent innovation and technology readiness support to MSMEs; (ii) Gender Equality as the operation will support the reduction of gender gaps in innovation and technological adoption through awareness campaigns aimed at women entrepreneurs to improve interest and perception on the benefits of innovation, and will ringfence 17% of financing for innovation and technology readiness grants for WOFs; and (iii) CC, as according to the [joint methodology of the Multilateral Development Banks](#), it is estimated that the project has 10% of climate finance through an investment target in mitigation and/or adaptation activities that will be monitored through indicators such as development of new products and services, adoption of digital and climate technologies, and access to credit lines for climate investments ([OEL#6](#)). Additionally, this operation will contribute to the Corporate Results Framework 2020-2023 (GN-2727-12) through the following indicators: (i) MSMEs financed; (ii) enterprises provided with technical assistance; (iii) agencies with strengthened digital technology and managerial capacity; (iv) women beneficiaries of economic empowerment initiatives; and (v) beneficiaries of enhanced disaster and CC resilience. The operation is aligned with Vision 2025. Reinvest in the Americas: A Decade of Opportunity (AB-3266), by helping to reactivate the productive sector through digitalization and faster adoption of technologies, SMEs entrepreneurship and innovation support, and climate action. The operation is consistent with: (i) the Innovation, Science and Technology Sector Framework Document (GN-2791-13) by focusing on increasing public and private investment in technology and innovation; (ii) the Support to SMEs and Financial Access/Supervision Sector Framework Document (GN-2768-7) by expanding financing for the productive sector for new digital technologies and green technologies; (iii) the IDB Group Climate Change Action Plan 2021-2025 (GN-2848-9); and (iv) with the Climate Change Sector Framework Document (GN-2835-9) as the operation promotes low carbon and resilient investments in climate technologies and enhances the enabling environment through catalytical soft measures. Finally, this operation is included in the Update of the Annex III of the 2022 Operational Program Report (GN-3087-2).
- 1.33 This operation aligns with CDB's 2020-2024 Strategic Plan, which emphasizes Building Economic Resilience as one of its strategic objectives and digital transformation as a cross-cutting issue, and with its Private Sector Development Policy and Strategy, whose goal is to contribute to transform the private sector so that it is a major driver of economic and social wellbeing.



## **B. Objective, components, and cost**

1.34 **Objective.** The general development objective of this program is to increase the productivity of MSMEs in OECS countries. The specific development objectives of this program 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.<sup>19</sup> The details of the component management conditions can be found in the [OR](#).

1.35 **Component 1. Promoting Innovation and Readiness for Technology Adoption (US\$12 million).** This component will promote innovation efforts in OECS MSMEs and their readiness for digital and/or low carbon resilient technologies by financing two new funds.<sup>20</sup> For both funds, BSOs and beneficiary MSMEs must meet the eligibility criteria described in ¶3.4. The products and activities financed under this component are:

**a) Innovation grants fund (US\$4.5 million)<sup>21</sup>:** Through this fund, the CDB will on-lend resources to OECS countries to be intermediated by public BSOs that in turn will finance: (i) matching grants to support the development of new products or services in existing firms, including climate products and digital products;<sup>22</sup> (ii) seed capital grants to entrepreneurs; and (iii) courses to assist MSMEs to become more innovative, including training of Eligible MSMEs managers and employees in design thinking. Innovation grants and seed capital grants to entrepreneurs can finance consulting services and capital goods (limited to 30% of the total amount of the grant) necessary to develop a prototype or test a new business model. Examples of projects financed by innovation grants and seed capital grants are: (i) projects that develop new solutions to climate challenges, such as those described for different sectors in Annex IV of the [OR](#); (ii) projects that help solve societal challenges such as digital payments or health and wellness; and (iii) projects that are based on novel research and development with a market application.<sup>23</sup> The maximum amount for the innovation grants and seed capital for entrepreneurs will be US\$70,000.<sup>24</sup>

**b) Technology adoption readiness grants fund (US\$7.5 million)<sup>25</sup>:** Through this fund, the CDB will on-lend resources to OECS countries to be intermediated

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<sup>19</sup> This operation has three specific objectives, yet two components, due to: (i) the market failures for innovation and technology readiness are similar (related to externalities), and different from the market failure for access to finance for technology adoption (related to information asymmetries); and (ii) BSOs will intermediate activities under the first two specific objectives, while FIs will intermediate activities under the third specific objective.

<sup>20</sup> The funds will be held by the CDB and used by its PSD to finance sub-loans according to the activities and eligibility criteria defined by the operation.

<sup>21</sup> This is an estimated amount and can be adjusted according to realized demand from OECS countries.

<sup>22</sup> Beneficiary MSMEs will be expected to match the grant with a contribution of 20 to 40% of the benefit received. The counterpart requirement will be determined by the intermediary entity depending on the goal of the grant and the population of MSMEs being targeted. Once the level is set, this will become a criteria for that cohort and will be advertised in the call for proposals put out to attract firms. For any given cohort of firms, the same level of counterpart financing will apply.

<sup>23</sup> This is a non-exhaustive list to illustrate the kinds of projects that could be financed.

<sup>24</sup> These limits have been dimensioned based on exhaustive calculations performed in the CBA on the average expenditure in innovation in ongoing and new investors in innovation and technology adopters, based on 2019 enterprise level data collected by Compete Caribbean during 2020 and 2021 tracking innovation expenditure and technology adoption expenditure of 869 businesses in the Eastern Caribbean.

<sup>25</sup> This is an estimated amount and can be adjusted according to realized demand by OECS countries.

by public BSOs that in turn will finance: (i) strengthening of technology extension service providers, including on conducting technology audits on the topics of Information and Communication Technology (ICT) and on climate technologies such as small scale renewable energy and resilient applications; (ii) vouchers for consultancy services to prepare technology audits and technology adoption plans for digital and/or climate technology, including strategies such as supply chain digitalization and tracing; (iii) development of digital marketplaces where businesses can find appropriate technology suppliers; (iv) strengthening of BSOs responsible for deploying these programs on selecting beneficiaries of innovation grants and technological readiness subsidies, strengthening monitoring and evaluation systems to collect key performance indicators including annual average sales per worker of beneficiary MSMEs and tracking climate finance, financial climate governance (for example, Task Force on Climate Finance Disclosures, Environmental and Social Safeguards (ESG)+ climate, etc.), and in becoming aware of gender and intersectional equity aspects of their organizations; and (v) drafting of policy frameworks promoting digital and climate technology adoption, gender diversity and more generalized innovation practices in businesses. The maximum amount for the technology adoption readiness grants will be US\$15,000.<sup>26</sup>

- 1.36 Component 1 will also finance the creation and implementation of: (i) targeted awareness campaigns aimed at WOFs for both innovation grants and technology readiness programs; (ii) strengthen BSOs capacity to identify any obstacles being faced by WOFs for innovation/technology adoption, and provide support accordingly; (iii) strengthen their capacity to monitor the number of grants and value of funds awarded to WOFs; and (iv) convene gender-balanced investment panels to decide on the awarding of innovation grants and technology readiness vouchers, and ringfence 17% of the funds awarded for innovation and technology adoption readiness grants to WOFs (which is representative of the population of formal WOFs in the OECS with more than 5 employees), without sacrificing selection according to innovation merit and/or capacity to absorb the technology. Due to OECS WOFs' significant lack of awareness, lower propensity for innovation, and for adoption of climate technology as compared to men owned firms (¶1.15) this ringfencing intends to ensure that WOFs receive financing in proportion to their participation as business owners. Supported BSOs will be encouraged to run entrepreneurship capability-building programs for women, prior to launching innovation grant competitive calls, target technology readiness support to firms and industries that play an outsized role in female employment and use a portion of program resources to analyze and design policy frameworks that encourage or strengthen gender diversity in the workplace.
- 1.37 **Component 2. Promoting technology adoption (US\$8 million).** This component will finance a technology adoption credit fund, which will be on-lent by the Borrower to Eligible FIs. Such Eligible FIs shall in turn finance LOCs for Eligible MSMEs' digital and climate technology adoption. The LOCs will offer MSMEs loans for working capital and capital investment with a minimum of 30% earmarked to purchase equipment, software, consultancy services, and other technology adoption related investments for technical upgrading, business reconversion, digital transformation and measures for climate mitigation and

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<sup>26</sup> See footnote 23.

adaptation in eligible MSMEs, including solar panels (¶2.6). Annex IV of the [OR](#) provides a list of eligible CC mitigation and adaptation technologies, including ICT and digital technologies with net zero emissions eligible to be financed with the 30% earmarked for technology related investments, including climate specific options in sectors such as energy, transport, agriculture and food production, and tourism infrastructure. New buildings or infrastructure and repair works will not be eligible investments under these loans. [ATN/OC-19460-RG](#) will provide technical assistance to FIs participating in this operation to strengthen their monitoring and evaluation systems, including their ability to collect annual average sales per worker of beneficiary MSMEs and track climate and gender finance. To be eligible, DFIs and FIs must meet the operation's eligibility criteria described in ¶3.5. No credit or loan to a MSMEs may exceed US\$250,000 or its equivalent in local currency<sup>27</sup> on the basis of expected demand with a potential average between US\$30,000 to US\$50,000.

- 1.38 **Beneficiaries.** Direct beneficiaries are formal MSMEs of any sector, excepting those referred to in the Exclusion List (Annex I of the [OR](#)), and indirect beneficiaries are BSOs and FIs in the Eligible OECS Member Countries (¶1.1). It is not possible to know a-priori which countries and FIs will close sub-loans with the CDB, so we can only estimate indicative amounts of beneficiaries based on the estimated budgets for the activities and maximum amounts of grants and loans estimated in the Cost-Benefit Analysis ([CBA](#)), which in turn is based on 2019 enterprise level data of how many businesses in the OECS are investing or could invest in innovation and technology adoption. The indicative amount of MSMEs that will benefit from innovation grants, training, technology vouchers and credit for technology adoption is 596, with at least 17% (101) of these being WOFs.

### C. Key results indicators

- 1.39 **Evaluability assessment note.** As part of the long-standing relationship with the CDB and the recently signed mutual cooperation agreement (¶1.1), the IDB has recognized that the CDB has monitoring and evaluation arrangements that are comparable to the IDB's. Thus, all existing precedents<sup>28</sup> of GCLs involving Eastern Caribbean countries that are not IDB members, and where the CDB is the Executing Agency (EA) establish: (i) that these constitute exceptional cases where the nature of the operation renders a standard Development Effectiveness Matrix (DEM) inapplicable; (ii) that in such cases, IDB management ensures that the ex-ante evaluability, implementation metrics and ex-post reports provided by CDB are consistent with the IDB's own operations' standards; (iii) that the CDB's results management framework allows for a systematic monitoring and evaluation of its projects thus complying with the reporting requirements

<sup>27</sup> These limits are based on the demand study of financing needs of FI's clients for innovation and technology adoption that was carried out for this operation, and based on CDB's experience in LOCs to FIs, which indicate that a limit of US\$250,000 will ensure that credit is targeted to MSMEs as opposed to large firms (see [OEL#10](#) for FI's preference of targeting larger clients). In the case of strategic value chain programs where the anchor company desires to digitalize or increase climate action along the chain, the loan to the anchor company may exceed this amount, provided that there are at least 3 suppliers in the chain and that the limit of US\$1 million or equivalent in local currency is not exceeded for sub-loans to the beneficiary MSMEs.

<sup>28</sup> These operations are: (i) [2798/BL-RG](#) approved in 2013 for US\$20 million, 90.65% disbursed; (ii) [4712/GN-RG](#) approved in 2018 for US\$60 million, 0% disbursed; (iii) [5414/OC-RG](#); and (iv) [5156/OC-RG](#).

established in the [MEP](#); (iv) that all operations financed by CDB through each loan will be mapped to GCI-9 priorities and to the specific CDB's country strategy with each of the borrowers, thus complying with strategic alignment principles homologous to the Bank; and (v) that the Bank will rely on CDB's procedures, which are consistent with IDB's result management procedures, to receive information about the advance of the program results. An Evaluability Assessment Note that ensures that implementation metrics and ex post reporting by CDB are consistent with the standards of the IDB and attests to the adequacy of this arrangement is provided as Annex I.

- 1.40 **Expected impact.** The general development objective of this program is to increase the productivity of MSMEs in OECS countries. The impact indicator will measure the annual average sales per worker of beneficiary MSMEs. The expected impact, outcomes and outputs are detailed in the Results Matrix (RM) (Annex II). Furthermore, the program's expected results indicators are:

**Table 1. Key results indicators**

Expected outcomes	Indicators
<b>Component 1. Promoting innovation and readiness for technology adoption</b>	
Outcome 1.1. Promoting innovation efforts in MSMEs of OECS countries	MSMEs innovation projects financed
Outcome 1.2. Strengthening the supply and demand of services for technology adoption readiness in MSMEs of OECS countries	BSOs strengthened
	Vouchers for diagnostic services and readiness for technology adoption financed
<b>Component 2. Promoting technology adoption</b>	
Outcome 2. Promoting technology adoption and digitalization in MSMEs of OECS countries	MSMEs technology adoption projects financed

- 1.41 **Economic viability.** A CBA was carried out in compliance with the IDB Guidelines for Economic Analysis ([OEL#1](#)), which, in a conservative scenario, yield an expected economic return of 21.4%, consistent with a Net Present Value (NPV) of US\$2.78 million and an internal rate of return of 23.4% for Component 1 and 14.4% for Component 2. The parameters that induce more variability in the sensitivity analysis of the results are for Component 1: (i) the percentage impact of sales due to vouchers; (ii) the percentage share of the loan dedicated to technology investment; and (iii) the permanency of the effects of vouchers, and for Component 2: (i) the elasticity of expenditure in adoption and productivity; (ii) the permanency of the effects of adoption financing; and (iii) the discount rate. Both public and private investments have been included in the costs of the program.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 **Financing instrument.** This operation will be structured as a GCL since it involves financial intermediation to the beneficiaries which is considered the most effective mechanism to implement this intervention based on the preceding operations approved with CDB in 2012, 2015, 2020 and 2021 (¶1.1, ¶1.30). The CDB will on-lend the resources through sub-projects based on the components of the program.
- 2.2 In line with two demand studies commissioned to dimension the activities to be financed by the program ([OEL#9](#), [OEL#10](#)), the total amount of the program will be US\$20 million, financed with resources from the Bank's Ordinary Capital. The component allocations are indicative, demand driven, and subject to reallocation based on demand from eligible countries. Any changes to the component allocations will be subject to IDB policies and procedures. The budget breakdown is as follows:

Table 2. Summary of program costs<sup>29</sup> (US\$)

Description	IDB	%
<b>Component 1. Promoting innovation and readiness for technology adoption<sup>30</sup></b>	<b>12,000,000<sup>31</sup></b>	<b>60</b>
a. Innovation grants fund	4,500,000	22.5
b. Technology adoption readiness grants fund	7,500,000	37.5
<b>Component 2. Promoting technology adoption</b>	<b>8,000,000</b>	<b>40</b>
<b>Total</b>	<b>20,000,000</b>	<b>100</b>

\*The costs of the activities are indicative.

- 2.3 All the resources of the program will be committed within three years<sup>32</sup> and disbursed within six years. The six years disbursement period is due to the CDB requiring at least one year to identify, design and approve sub-loans to be financed under this operation. Sub-loans from the CDB to the countries and FIs will have an execution period of 5 years.
- 2.4 **Resource allocation.** Loan resources shall be allocated to the Eligible OECS Member Countries by prorating the proportions received by each country under CDB's current Performance Based Allocation (PBA) formula. However, in order

<sup>29</sup> Each sub-loan may finance administrative costs, which are eligible expenses. The annual assurance reports are eligible to be financed under the operation. The CDB may utilize its auditors, once they are eligible to the Bank.

<sup>30</sup> The amounts for funds under Component 1 are referential and can be adjusted according to OECS demand.

<sup>31</sup> 17% of the budget for innovation and technology adoption grants will be ringfenced to finance WOFs. In addition, the component will finance BSO capacity building to target WOFs and meet their special needs (¶1.36).

<sup>32</sup> The resources shall be considered to have been committed for a given sub-loan from the date on which the CDB and the sub-borrower have signed the respective loan contract.

to manage the demand by Eligible OECS Member Countries, if an Eligible OECS Member Country does not use its allocated resources as per this mechanism for the approval of new projects after six (6) months from the date of signature of the Loan Contract, CDB will inform the IDB of such situation and may request the authorization of a reallocation of the unused resources among the other Eligible OECS Member Countries that have additional demand for resources under the Program. The reallocation will be made on the basis of demand on a first-come, first-serve basis and according to CDB's programming process. At the start of the program all countries and FIs will receive details of the program in writing and through a meeting, ensuring that the operation provides equitable opportunity of access to all beneficiary countries and FIs while having a flexible design to address country specific needs. Resources will be used by CDB for the financing of sub-loans for any of the six Eligible OECS Member Countries and/or FIs located in those countries that meet the eligibility criteria set forth in the [OR](#). The resources of the loan may be blended with other resources of CDB, in proportions to be determined by CDB.

- 2.5 **Sub-loan amounts.** Once the PBA period has passed, the maximum sub-loan size will be up to US\$8 million, while the minimum will be at least of US\$1 million<sup>33</sup> unless, on the basis of special circumstances, CDB obtains the prior approval of the IDB. There will be no country maximum size after the PBA period elapses, as total loans to countries will be based on the capacity of the country and of eligible borrowers in that country to absorb the proposed sub-loans. The maximum limit is intended to allow for at least three intermediaries as well as the CDB to build capacity in stimulating private sector development through innovation and technology adoption. The aforementioned limits refer to the Loan resources and not to the additional resources that CDB might add as part of blending. Each sub-loan may finance administrative costs of the sub-loans which are eligible expenses. CDB policies and procedures are consistent with those of the IDB and therefore applicable to the Program.

## **B. E&S safeguard risks**

- 2.6 According to the ESPF (GN-2965-23), as a GCL for a financial intermediary, this operation is classified as an FI, with low E&S risk, and low Disaster and CC Risk Classification.<sup>34</sup> It is expected that the CDB will on-lend the resources through sub-loans based on the components of the program to finance projects classified as Category C, and exclude projects classified as Category A or B according to the Bank's classification system. As it is likely that the operation will finance solar panels under Component 2, during due diligence the risks of forced labor in the supply chain of solar panels were evaluated. Financing of solar panels will be

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<sup>33</sup> The maximum threshold per loan could allow an intermediary such as a DFI, to submit sub-loan proposals that include financing from each of the three funds, which are complementary. The minimum cap per sub-loan aligns with the minimum loan size undertaken by the CDB and could be appropriate for a loan under Component 2.

<sup>34</sup> The operation will support sectors with low level of direct impacts, and low level of indirect/cumulative impacts (e.g., non E&S relevant sectors), the activities eligible for financing will be associated with low level of direct and indirect/cumulative impacts, and given exclusion criteria and the small amount of the sub-loans, the projects are not expected to exacerbate the risk from natural hazards to human life, property or the environment. Moreover, although the likelihood of experiencing a natural disaster in any of the beneficiary countries during the program implementation is medium-high, the probability of a combination of natural disasters severely affecting all six countries, which is the scenario that would hinder a redistribution of resources among the countries, is low.



limited to small-scale sub-projects with a maximum of 0.15 megawatts of installed capacity (assuming that the entirety of a loan under Component 2 would be spent in solar panel acquisition, which will rarely be the case). The Environmental and Social Management System (ESMS) includes measures to mitigate such risks in conformity with the regulations of the eligible borrowing countries. The ESMS and the measures included in this operation are aligned with: (i) the IDB Group Measures to Address Risk of Forced Labor in the Supply Chain of Silicon-based Solar Modules (GN-3062-1); (ii) the new requirements of the ESPF (GN-2965-23); and (iii) IDB policies for procurement and contracting (GN-2349-15 and GN-2350-15).

- 2.7 When deemed relevant, CDB will assess climate risk during the execution of the program by applying the ESMS for the program comprised of CDB's Environmental and Social Review Procedures (which include IFC Performance Standards and have considerable overlap with IDB's safeguard policies) in combination with the conditions included in the loan contract and the [OR](#). Only low-risk disaster and CC sub-projects will be financed, and their risk classification cannot be higher than that of this operation.

#### **C. Fiduciary risk**

- 2.8 The CDB has adequate fiduciary capacity to execute the project. The CDB has adequate Financial Management (FM) policies and rules that outline satisfactory requirements for determining the eligibility of expenses, disbursement management, reconciliation of accounts, project financial supervision, financial reporting, internal controls, external audits, prohibited practices and transparency. The CDB also has a robust procurement system, having reviewed its Procurement Policy and Procedures in 2021 to introduce international best practices (see Annex II).

#### **D. Other risks and key issues**

- 2.9 **EA risks.** There were two medium-high risks identified: (i) related to human resources, where if there is a lack of experience by human resources in the CDB designing innovation and technology adoption loans, possible delays in execution could occur, leading to an impact on the program's schedule. To mitigate this risk, [ATN/OC-19460-RG](#), will provide consultancy support to the PSD to identify, design and execute sub-loans to be financed under this operation. And (ii) related to internal processes, that if BSOs of borrowing countries do not have previous experience in awarding, monitoring and evaluating innovation grants and technology adoption readiness vouchers, there may be inefficiencies in the allocation of program resources, leading to a poor achievement of outcomes. To mitigate this risk: (i) during preparation of sub-loans financed under Component 1, the PSD will identify capacity shortfalls of the specific BSOs to manage innovation calls, technology vouchers, and conduct monitoring and evaluation; (ii) the PSD will include in the design of sub-loans for Component 1 activities to strengthen BSOs' capacity to identify MSME beneficiaries, and to monitor and evaluate sub-projects; and (iii) operating regulations for sub-loans financed under Component 1 will include guidelines to manage calls for: (i) innovative grants; and (ii) technology vouchers. Standard guidelines could be financed by [ATN/OC-19460-RG](#) for inclusion in all Component 1 sub-loans.

- 2.10 **Sustainability.** The program will be executed by the CDB's new PSD, which is being expanded and intends to develop new lines of support to the private sector through this operation. The sustainability of the funds is incorporated into the program by piloting new financing solutions in BSOs and FIs (subsidies for innovation grants and technology readiness on the one hand, and credit for technology adoption on the other) in the Eastern Caribbean with a view to scale-up in five years. The program aims to build sufficient capacity within a set of OECS innovation ecosystem actors as well as ample demonstration effects of improved performance of MSMEs to ensure further investment in innovation and technology adoption by governments/BSOs, MSMEs, and FIs in the Eastern Caribbean. With respect to CC mitigation and adaptation, the COP26 has generated a high level of awareness and governments have committed to emissions reductions and climate resilience as part of their Nationally Determined Contribution commitments, and this program is going to assist in progress towards these goals. With respect to gender, the program aims to build sufficient capacity within OECS innovation ecosystem actors to ensure the continuity of gender-sensitized innovation and technology adoption programs (§1.37).

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 **Borrower and EA.** CDB will be the Borrower and the EA by means of the PSD, for this operation. CDB is an AA+ rated financial institution according to [recent reports](#), which has ample experience working with the IDB. To date, the IDB has financed nine loans to CDB (§1.1) for a total value of US\$262 million. All the resources were lent by CDB for projects in its OECS member countries.
- 3.2 CDB will have fiduciary responsibility for the Program resources and perform the following functions: (i) administration, including making disbursements to eligible countries and executing agencies to meet the Program's objectives under the stipulations of the Loan Contract and the [OR](#); (ii) preparing project implementation and financial progress reports for the Program; (iii) monitoring use of resources and compliance with applicable procurement policies and procedures and IDB's ESPF; and (iv) monitoring, evaluation and auditing of the Program. CDB will designate: (i) a general Program coordinator to monitor the execution of the Program; and (ii) a financial coordinator for the Program.
- 3.3 **CDB as a borrower of IDB resources.** On July 13, 2020, the IDB, IDB Invest and CDB entered into an [agreement](#) for mutual cooperation in the Caribbean region. This agreement sets out how the parties will cooperate in the financing or co-financing of projects to build social, economic and environment resilience in the region. It establishes the general standards applicable to operating relations between IDB and CDB. Pursuant to such agreement CDB policies and procedures are applicable to the program since they are consistent with those of the IDB. The proposed financing to CDB complies with all three criteria



(compatibility,<sup>35</sup> complementarity,<sup>36</sup> and additionality<sup>37</sup>) as set forth in the Bank's Operational Policies and Strategies Manual, "Relationship with Subregional Financial Intermediaries – General Policy" (OP-601).

- 3.4 **Eligibility criteria for sub-loans in Component 1.** Sub-loans under Component 1 will be made available to the governments of the Eligible OECS Member Countries or directly to the BSOs. The sub-borrower and EA of such sub-loans will be the relevant line ministry (e.g., Ministries of Commerce, Trade, Entrepreneurship, Innovation, Business and/or equivalent) through an affiliated BSOs or an executing agency acceptable for the IDB. Executing agencies of the sub-loans need to have at least 3 years of experience providing support services to business, and demonstrated capabilities to manage the project cycle efficiently, including identification, registration, and FM and disbursements, providing fiduciary assurance of the processes to allow for traceability of the funds, and managing E&S risk, among others. Eligible MSMEs must: (i) be incorporated under the laws of the country; (ii) have up to 50 employees; and (iii) have annual sales of up to US\$750,000 or its equivalent in local currency. MSMEs benefitting from innovation grants and technology readiness vouchers will be selected through competitive calls based on a pre-agreed set of criteria that will have been defined in the operating regulations of the sub-loans for this component. At the minimum, these will include innovation merit, matching grant contribution requirements and identified target market (for the innovation grants) and technology absorption capabilities (for the technology vouchers).
- 3.5 **Eligibility criteria for sub-loans in Component 2.** Sub-loans under Component 2 shall be made available to Eligible FIs. The executing agencies will be eligible FIs or alternative executing agencies acceptable to the IDB. To be eligible, FIs must have: (i) non-performing loan portfolio adequately covered by loan loss provisions; (ii) sufficiently high cash collection ratio on loans so that liquidity is not adversely affected; (iii) a debt-service coverage exceeding 1.25 times; (iv) a ratio of total debt-to-equity not exceeding 4:1; (v) a minimum Return of Assets of 1%; and (vi) ability to manage E&S risk. In addition, to be eligible for the LOCs, MSMEs must: (i) be incorporated under the laws of the country; (ii) have between 1-50 employees; and (iii) have annual sales of up to US\$750,000 or its equivalent in local currency. The CDB will determine whether all FIs and MSMEs satisfy the above requirements, according to their procedures and the criteria established in the sub-loans operating regulations.
- 3.6 **Coordination mechanism.** In countries with sub-loans under Component 1, a Project Steering Committee will be responsible for ensuring coordination with other relevant public and private strategic partners, including the Ministry of Finance, other ministries or entities responsible for digital transformation, the focal points or project coordinators for projects under Component 1, and the FI's focal points under Component 2 in that country. The Project Steering Committee will be chaired by a representative from the agency implementing projects under Component 1. Members of the Project Steering Committee will receive the

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<sup>35</sup> CDB policies are consistent with those of the Bank.

<sup>36</sup> Since the Bank cannot lend directly to the OECS countries, as they are not IDB member countries, CDB provides the channel for Bank assistance to support the sustainable development of these countries.

<sup>37</sup> This loan has a multiplier effect with regards to financial resource flow to the subregion and will increase the level or resources that CDB can provide to the beneficiary countries.

non-objection of the CDB. For each sub-loan under Component 1, the relevant executing entity will identify a project focal point/project coordinator, who will be formally assigned to coordinate the execution of the sub-project, supported by a team at the relevant BSOs, which will include a financial coordinator. Each sub-loan under Component 2 will be executed by a team at the relevant FI, who will designate a formal focal point to provide oversight of implementation. CDB will supervise progress and arrange regular review meetings with the BSOs responsible for sub-loans under Component 1 and with the FIs responsible for sub-loans under Component 2 and, for those sub-loans involving DFIs, Ministry of Finance staff.

- 3.7 **Operating Regulations (OR).** The [OR](#) define in detail the use of the program's resources, and includes a description of the institutional, operating, FM, procurement, reporting and oversight arrangements, including integrity risk and reputational impact annexes.
- 3.8 **CDB's approval process for sub-loans.** Upon receipt of a formal request from a country or FI, CDB reviews it and, after having determined that it would fit within the strategic priorities of CDB and the parameters of the Country Engagement Strategy for the country in question (that can be viewed on the CDB [website](#)), CDB gathers the necessary data to prepare the appraisal report that will be reviewed internally (Departmental followed by Loans Committee review processes). It should be noted that prior to the Loans Committee approval of a sub-loan, CDB will submit a draft specific to each sub-loan proposal to the IDB for its non-objection, along with a draft of its operating regulations in the case of Component 1, which will include the criteria to award subsidies to beneficiaries following competitive mechanisms. Once the proposal has internal validation, it is submitted to CDB's Board of Directors for approval. Finally, CDB shall submit to the Bank a copy of the signed sub-loan agreement with the respective sub-borrower prior to the first disbursement of each sub-loan.
- 3.9 **Special contractual condition prior to the first disbursement of the loan.** The approval and entry into effect of the [OR](#), in accordance with the terms and conditions previously agreed upon between the Borrower and the Bank. This condition will ensure that the EA has in place the [OR](#) for the successful implementation of the program.
- 3.10 **Special contractual conditions for execution.** The Borrower shall submit to the Bank: (i) the draft Sub-loan proposal for the Bank's non-objection, including the operating regulations for Component 1 Sub-loans, prior to the approval of each Sub-loan. This condition will ensure the Bank that each Sub-loan meets the operational, technical and economic viability criteria agreed between the Borrower and the Bank; and (ii) a copy of the signed Sub-loan agreement between the Borrower and the respective Eligible Sub-borrower along with the approved operating regulations for Component 1 Sub-loans, prior to the first disbursement of each Sub-loan. This condition will ensure the Bank that a Sub-loan agreement has been entered into between the Borrower and the Eligible OECS Member Country or eligible FIs (sub-borrower) in accordance with the terms and conditions agreed with the Bank.

- 3.11 **Special Environmental, Social, Health and Safety contractual clauses.** The operation shall finance projects classified as Category C, and exclude projects classified as Category A or B according to the Bank's classification system under the Bank's ESHS policies.
- 3.12 **Retroactive financing.** The IDB may retroactively finance from the resources of the loan, up to the sum of US\$1 million (5% of the proposed loan amount), eligible expenses incurred by the Borrower prior to the date of approval of the loan provided that all requirements are substantially similar to those set out in the loan contract and the procedures are in conformity with the Core Procurement Principles (GN-2349-15 y GN-2350-15). Such expenses must have been incurred from March 30, 2022 (date of approval of Project Profile), but under no circumstances will expenses incurred more than 18 months before the loan approval date be included.
- 3.13 **Fiduciary arrangements and requirements.** The fiduciary arrangements and requirements described in Annex III establish the framework for FM and planning and procurement execution and supervision that will govern the operation. Pursuant with the 2020 [agreement](#) between the IDB, IDB-Invest and the CDB (¶1.1), 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 on lending 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. Disbursements will be made pending IDB acceptance of a request of advance of funds, and a justification for the use of at least 70% of the total cumulative balances pending justification for this purpose. The following audit reports will be required: (i) the Annual Audited Financial Statements (AFS) of the CDB presented to the Bank within 180 days following the end of CDB's fiscal year end; (ii) semi-annual unaudited financial reports including financial status reports on the sub-loans submitted within 90 days after the end of each semester; and (iii) an annual assurance report on the process of preparation and submission of disbursement requests.<sup>38</sup> The CDB may utilize the services of its auditors, once they are eligible to the Bank. The longer due date is being requested since the CDB's financial rules dictate that its AFS may not be released until approved by the Board of Governors at its annual meeting held in May of each year.

## **B. Summary of arrangements for monitoring results**

- 3.14 As the Borrower and EA, the CDB is the main party responsible for providing inputs to monitor and evaluate the program. Some program's outputs' targets, however, are not fixed in advance as they will depend on the actual project typology, resource distribution across countries, and potential demand for sub-loans for all components requested by beneficiary countries. As such, the indicators are designed to be flexible enough to allow for this variability in quantity

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<sup>38</sup> The annual assurance reports are eligible for financing with the loan resources, as long as the auditors are eligible to the Bank.

of outputs, which is reflected in target values to be determined in the RM. Nonetheless, CDB's "Guidelines for Preparing and Using the Results Framework" requires its projects and programs to set quantitative targets against which actual performance will be subsequently compared and measured. In compliance with its own Guidelines as well as IDB's Development Effectiveness Framework, the EA is responsible for updating indicators' target values as information becomes available. The EA will bear the costs of evaluation and monitoring in all cases. The project team composed by specialists from Competitiveness, Technology and Innovation Division, Connectivity, Markets, and Finance Division, and CC and Sustainability Division, with support from the country office in Barbados, will be in charge of following up on the execution, monitoring and evaluation of the program.

- 3.15 **Monitoring.** The EA will monitor and supervise sub-loans based on their policies and procedures and provide the IDB with the necessary information to monitor and evaluate the program. The results of the EA's monitoring and supervision will be reported to the Bank through semi-annual progress reports submitted no later than 60 days after the end of each semester. These reports will indicate the degree of fulfillment of the output indicators and progress toward the outcomes of the RM, including the gender and climate milestone (tracking) indicators, making it possible for the Bank to monitor these indicators using the Bank's Monitoring and Evaluation Plan ([MEP](#)). Due to the ongoing global outbreak of COVID-19, the EA and the IDB have committed to carry out virtual meetings in lieu of field inspections. However, field inspections, should travel restrictions be lifted and be deemed essential, should be carried out semiannually, within a 60 day period after the semi-annual reports are submitted.
- 3.16 **Evaluation.** A mid-term evaluation once 50% of loan resources are disbursed, or after 3 years from the eligibility of disbursements, whichever is earlier shall be submitted to the IDB within 90 days following such deadline, to verify the reported progress of the program and assess its performance against the planned results, including the gender and climate milestone (tracking) indicators, and the EA's performance in coordinating and executing the program. The program's effectiveness will be measured by following a before-treatment and after-treatment methodology to compare the intermediate and final outcome indicators set in the RM. Three case studies to substantiate the "theoretical attribution" will be carried out at the end of the program for each deployed fund (innovation grants fund, technology adoption readiness grants fund and technology adoption credits fund). For the final outcome indicator related to the general development objective, an ex post CBA with the actual measures of intermediate and final outcomes will be carried out, taking as a guideline the ex ante CBA that has been prepared for this operation. The evaluation strategy is described in the [MEP](#).
- 3.17 **PCR.** Given: (i) the importance of assessing the achievement of the general development objective of the Program (increased productivity among beneficiaries); (ii) the evidence shown in the [MEP](#) about the maturity period necessary to detect impacts on productivity of treatments like those to be advanced by this Program; and (iii) the staggered deployment of the treatments during the execution period, and under the provisions contemplated in Paragraph 1.20 of the PCR Principles and Guidelines (Annex 1 of the OP-1696-6), the PCR

will be prepared by the EA up to 2 years after the final disbursement of resources to the individual projects.

- 3.18 **Information for program monitoring and evaluation.** The EA will be responsible for maintaining data gathering and monitoring systems. The EA will commit to maintain a system for monitoring and evaluation of all components, which it will use to prepare the reports and data delivered to the Bank. For the purposes of the evaluation, the EA will compile, store, and safeguard all information, indicators, and parameters necessary to prepare the PCR, including annual plans and the final evaluation. The additional information required for the evaluation process will be drawn from national and international secondary sources of statistical data and, potentially, reports of relevant organizations.

## EVALUABILITY ASSESSMENT NOTE

### STRENGTHENING PRIVATE SECTOR DEVELOPMENT THROUGH INNOVATION IN THE EASTERN CARIBBEAN OECS MEMBER COUNTRIES

(RG-L1160)

The objective of this Evaluability Assessment Note is to inform the Board of Executive Directors about the evaluability of the Program for Strengthening Private Sector Development Through Innovation in the Eastern Caribbean OECS Member Countries (RG-L1160). Given the nature of this loan proposal, a standard Development Effectiveness Matrix (DEM) score is not applicable. Rather, Management has ensured that ex-ante evaluability, implementation metrics and ex-post reporting by the CDB are consistent with the standards of the Bank for its own operations.

**Background.** The Report on the Ninth General Increase in the Resources of the Inter-American Development Bank (GCI-9) establishes that the Bank will continue its work in partnership with the CDB. To this end, Management was directed to propose a mechanism for approval by the Board of Executive Directors to provide ordinary capital resources, grants and concessional loans from other donors to the CDB. Six OECS member countries are eligible to receive IDB funding through the CDB: Antigua and Barbuda, the Commonwealth of Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines. On January 27, 1977, the Bank Charter was amended to allow the Bank to provide financial resources to the CDB to support the development of its members. On September 28, 1977, the Bank and the CDB entered into an agreement setting forth the general standards applicable to operating relations between both institutions. CDB and the IDB have maintained a long collaborative relationship since 1977 with a total of nine approved operations worth US\$262 million, with the objective of supporting the economic and social development of the OECS countries. A 2020 agreement between IDB, 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 proposed GCL has as the general development objective to increase the productivity of MSMEs in the OECS countries. The specific development objectives of this program 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. The proposed GCL will help consolidate the CDB's new PSD by supporting innovation and technology adoption including climate action in MSMEs.

**Strategic Alignment.** All operations financed by CDB through this loan will be mapped to both GCI-9 priorities and/or to the specific CDB's country strategy with each of the borrowers. Thus, all operations will comply with strategic alignment principles homologous to the Bank's.

**Evaluability.** Given the nature of this operation, where the projects to be financed are not yet defined, the type of projects likely to be financed are supported by ample evidence on their cost-effectiveness. Similarly, the result matrix, although exhibiting vertical logic, does not include defined baseline or target values. The Bank will rely on CDB's procedures, consistent with IDB's result management procedures, to receive information about the advance of the program results. A CBA monetizing the efficiency/productivity gains induced by innovation and technology adoption investments was carried out, showing that in a conservative scenario the program has an aggregate economic net present value of US\$2.78 million, and an internal rate of return of 21.4%. Given the nature of the operation, where specific outputs and projects to be financed are not yet defined, costs are estimated via the identification of probable "specific" outputs to be financed by each of the funds proposed as "general" outputs. A sensitivity analysis was conducted, and although there is a risk of a negative NPV in Components 1 and 2, the support of the distribution falls mostly in the positive domain, while the high degree of conservatism of assumptions underpinning the analysis is also noted, supporting the maintenance of the program's economic viability.

**Reporting of results.** The CDB will monitor and supervise operations based on their policies and procedures and provide IDB with the necessary information for IDB to monitor and evaluate the program. The CDB's results management framework allows for a systematic monitoring and evaluation of its projects thus complying with the reporting requirements established in the [MEP](#). Effects will be evaluated against expected impacts, results and outputs, as detailed in the RM.

## RESULTS MATRIX

<b>Project's Objective:</b>	The specific development objectives of this program are: (i) promoting innovation efforts in MSMEs of OECS countries, (ii) strengthening the supply and the demand of services for technology adoption readiness in MSMEs of OECS countries and (iii) promoting technology adoption and digitalization in MSMEs of OECS countries. The achievement of specific objectives will contribute to the general development objective of this program: to increase the productivity of MSMEs in OECS countries.
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### GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of Measurement	Baseline Value	Baseline Year	Expected Year for Achievement	Target	Means of Verification	Comments
<b>General development objective:</b> To increase the productivity of OECS MSMEs							
Annual average sales per worker of beneficiary MSMEs (index with base 2022)	Index	100	t	t+8 <sup>1</sup>	108	CDB administrative records	See <a href="#">MEP</a> .

<sup>1</sup> While the full expected impact matures beyond the execution period of the operation due to: (i) the timing of the rolling out of the program; (ii) the time necessary for the treatment to exert effect on a beneficiary and; (iii) the permanency of the impact that needs to be accounted as to monetize its economic benefit (see [MEP](#)), progress on this indicator (short term impact) will be measured at exit, during the final evaluation, which will be conducted up to 2 years after the final disbursement of resources (see [MEP](#) ¶3.15 and ¶3.20).



### SPECIFIC DEVELOPMENT OBJECTIVES

Indicators <sup>2</sup>	Unit of Measurement	Baseline Value	Baseline Year	Expected Year for Achievement	Target	Means of Verification	Comments
Specific development objective 1: Promoting innovation efforts in MSMEs of OECS countries							
1.1. MSMEs innovation projects financed	Number	tbd	2022	2027	tbd	CDB administrative records	See <a href="#">MEP</a> .
Specific development objective 2: Strengthening the supply and the demand of services for technology adoption readiness in MSMEs of OECS countries							
2.1. BSOs strengthened	Number	tbd	2022	2027	tbd	CDB administrative records	See <a href="#">MEP</a> .
2.2. Vouchers for MSMEs diagnostic services and readiness for technology adoption financed	Number	tbd	2022	2027	tbd		
Specific development objective 3 <sup>3</sup> : Promoting technology adoption and digitalization in MSMEs of OECS countries							
3.1. MSMEs technology adoption projects financed	Number	tbd	2022	2027	tbd	CDB administrative records	See <a href="#">MEP</a> .

<sup>2</sup> The baselines and targets of all indicators will be defined upon the actual take up of individual loans that OECS countries during the execution period of the program.

<sup>3</sup> During the startup workshop, an indicator measuring the growth in the relevant portfolio of FIs intermediating Component 2 will be added.

## OUTPUTS

Indicators	Unit of Measurement	Baseline Value	Baseline Year	End of Project (2027)	Means of Verification	Comments
Component 1: Promoting innovation and readiness for technology adoption (US\$12 million) <sup>4</sup>						See <a href="#">MEP</a> .
1.1 Innovation grants fund	Number of funds financed	0	2022	1	Program reports by CDB	
1.2 Technology adoption readiness grants fund	Number of funds financed	0	2022	1		
Component 2: Promoting technology adoption (US\$8 million)						
2.1 Technology adoption credit fund	Number of funds financed	0	2022	1	Program reports by CDB	

<sup>4</sup> 17% of the budget for innovation and technology adoption grants will be ringfenced to finance WOFs. In addition, the component will finance BSO capacity building to target WOFs and meet their special needs (¶1.36 of the Loan Proposal). See Table of Milestone (Tracking) Indicators – Gender Alignment

### MILESTONE (TRACKING) INDICATORS – CLIMATE CHANGE FINANCING

Indicators	Unit of Measurement	Baseline Value	Baseline Year	End of Project (2027) <sup>5</sup>	Means of Verification	Comments <sup>6</sup>
Component 1: Promoting innovation and readiness for technology adoption						
1.1 Percentage of Innovation grants fund allocated in CC projects	Percentage	0	2022	tbd	Program reports by CDB	See <a href="#">MEP</a> .
1.2 Percentage of technology readiness grants fund allocated in CC projects	Percentage	0	2022	tbd		
Component 2: Promoting technology adoption						
2.1 Percentage of Technology adoption credit fund allocated in CC projects	Percentage	0	2022	tbd	Program reports by CDB	See <a href="#">MEP</a> .

<sup>5</sup> The commitment is that the sum of this column will be equal or greater than 10% of total funds financed.

<sup>6</sup> For all outputs, the number of MSMEs receiving CC technology adoption financing will also be collected. Eligible activities are listed in [OEL#6](#).

### MILESTONE (TRACKING) INDICATORS – GENDER ALIGNMENT<sup>7</sup>

Indicators	Unit of Measurement	Baseline Value	Baseline Year	End of Project (2027)	Means of Verification	Comments <sup>8</sup>
Component 1: Promoting innovation and readiness for technology adoption						
1.1 Percentage of Innovation grants fund allocated to WOFs	Percentage	0	2022	17% <sup>9</sup>	Program reports by CDB	See <a href="#">MEP</a> .
1.2 Percentage of technology readiness grants fund allocated to WOFs	Percentage	0	2022	17%		
Component 2: Promoting technology adoption						
2.1 Percentage of Technology adoption credit fund allocated to WOFs	Percentage	0	2022	tbd	Program reports by CDB	See <a href="#">MEP</a> .

<sup>7</sup> Data on gender and climate (tracking) milestone indicators will be collected during program monitoring and reported in the semi-annual progress reports, the mid-term evaluation, and the PCR.

<sup>8</sup> For all outputs, the number of corresponding WOFs receiving the respective financing will also be collected.

<sup>9</sup> 17% of OECS businesses are WOF.

**Country:** Regional      **Division:** IFD/CTI      **Operation No.:** RG-L1160      **Year:** 2022

## FIDUCIARY AGREEMENTS AND REQUIREMENTS

**Executing Agency (EA):** Caribbean Development Bank (CDB)

**Operation Name:** Strengthening Private Sector Development through Innovation in the Eastern Caribbean OECS Member Countries

### I. FIDUCIARY CONTEXT OF EXECUTING AGENCY

#### 1. Use of country system in the operation

<input checked="" type="checkbox"/> Budget	<input checked="" type="checkbox"/> Reports	<input type="checkbox"/> Information System	<input type="checkbox"/> National Competitive Bidding (NCB)
<input checked="" type="checkbox"/> Treasury	<input checked="" type="checkbox"/> Internal audit	<input type="checkbox"/> Shopping	<input type="checkbox"/> Others
<input checked="" type="checkbox"/> Accounting	<input type="checkbox"/> External Control	<input type="checkbox"/> Individual Consultants	

#### 2. Fiduciary execution mechanism

<input checked="" type="checkbox"/>	Particularities of the Fiduciary Execution	The CDB will have the fiduciary responsibility for the program's resources and perform the following functions: (i) making disbursements to eligible countries and executing agencies to meet the program objectives; (ii) preparing program implementation and financial progress reports; (iii) monitoring and compliance with applicable processes and procedures; and (iv) sub-loan monitoring, evaluation and auditing.
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#### 3. Fiduciary Capacity

Fiduciary Capacity of the EA	The CDB has adequate fiduciary capacity to execute the project. The CDB also has a robust procurement system, having reviewed its Procurement Policy and Procedures for Projects financed by CDB in 2019 and further reviewed such Procedures in 2021 to introduce international best practices. These policies are in turn applied to the on-lending operations between the CDB and the OECS Countries. The CDB has in place adequate FM policies and rules that outline satisfactory requirements for determining the eligibility of expenses, disbursement management, reconciliation of accounts, project financial supervision, financial reporting, internal controls, external audits, prohibited practices, and transparency. Project financial reporting is produced through the COGNOS accounting software reporting tool, while the SMARTSTREAM software system is used to record general loan transactions such as disbursements and borrowings.
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#### 4. Fiduciary risks and risk response

Risk Taxonomy	Risk	Risk level	Risk response
Internal processes	If there is a delay in the submission of FM deliverables by the CDB, the IDB may have difficulty monitoring progress on the operation.	Low	1. Increase in Bank Supervision activities. 2. Contracting of a consultant to support the FM reporting functions.

**5. Policies and Guides applicable to the operation:** Pursuant with the “Agreement between the IDB, IDBInvest and the CDB 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 on lending 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.  
FM Policies GN-2811 [OP-273-12].

**6. Exceptions to Policies and Rules:** The eligibility to participate in procurement processes will be extended to firms and individuals from, and goods originating in, CDB member countries which are not members of the IDB (see ¶5 above).

## II. ASPECTS TO BE CONSIDERED IN THE SPECIAL CONDITIONS OF THE LOAN AGREEMENT

<b>Exchange rate:</b> For the purpose of determining the equivalence of expenses incurred in local currency of the reimbursement of expenses from the Loan, the agreed exchange rate will be the rate on the effective date on which the Borrower, the EA or any other natural or legal person to whom the power to make expenses has been delegated, makes the respective payments in favor of the contractor, supplier or beneficiary.
<b>Justification of advance of funds:</b> Each advance of funds shall be subject to: (i) the request for advance of funds being presented in a manner acceptable to the Bank; and (ii) with the exception of the first advance of funds, the CDB should have presented a justification for the use of at least 70% of the total cumulative balances pending justification for this purpose, and the Bank having accepted such justification. The flexibility in the advance of funds limit (from the norm of 80%) is being requested to facilitate the smooth disbursement of funds to be on-lent by the CDB to beneficiary countries.
<b>Annual Audited Financial Statements (AFS):</b> The following audit reports will be required: (i) AFS of the CDB presented to the Bank within 180 days following the end of CDB's fiscal year end; (ii) semi-annual unaudited financial reports including financial status reports on the sub-loans submitted within 90 days after the end of each semester; and (iii) an annual assurance report on the process of preparation and submission of disbursement requests. The CDB may utilize the services of its auditors, once they are eligible to the Bank.

### III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

<input checked="" type="checkbox"/>	Projects with Financial Intermediaries	CDB undertakes to include in the sub-loan agreements the terms and conditions of the Loan Contract in relation to procurement execution, including the requirement on the sub-borrower to utilize the integrity covenant in bidding documents and contracts.
<input checked="" type="checkbox"/>	Advanced Contracting Retroactive financing	The IDB may retroactively finance from the resources of the loan, up to the sum of US\$1 million (5% of the proposed loan amount), eligible expenses incurred by the Borrower prior to the date of approval of the loan provided all requirements are substantially similar to those set out in the loan contract and the procedures are in conformity with the Core Procurement Principles (GN-2349-15 and GN-2350-15). Such expenses must have been incurred from March 30, 2022 (date of approval of Project Profile), but under no circumstances will expenses incurred more than 18 months before the loan approval date be included.

Main Acquisitions: A Procurement Plan is not applicable as they will be prepared on a sub-project basis.

### IV. AGREEMENTS AND REQUIREMENTS FOR FINANCIAL MANAGEMENT

<input checked="" type="checkbox"/>	Programming and Budget	The CDB will allocate loan resources based on criteria specified in the Loan Contract and credit regulations.
<input checked="" type="checkbox"/>	Treasury and Disbursement Management	<p><b>Disbursement mechanism.</b> The CDB will present signed and authorized disbursement requests, that may be manual or electronic.</p> <p><b>Disbursement methods.</b> The reimbursement, Direct Payment to Borrower (DPB) and advance of funds disbursement methodologies will be mainly used but given the nature of this operation it is foreseen that the DPB method will be used.</p> <p><b>Designated account.</b> The CDB uses a Treasury Single Account in the Bank of America in United States Dollar (US\$). The CDB Finance Department creates a designated sub-ledger account for the management of project resources.</p> <p><b>Justification of the advance of funds.</b> The CDB will request a new advance of funds when they justify at least 70% of the total accumulated balances of unjustified advances outstanding. The loan resources will be disbursed to CDB to the designated account established by CDB's finance department.</p>
<input checked="" type="checkbox"/>	Accounting, Information Systems and Reporting	The CDB records its financial transactions and prepares its financial statements in accordance with International Financial Reporting Standards and under the historical cost basis.

		<p><b>Accounting reports.</b> The CDB uses COGNOS to generate reports that provide loan status on a project/sub-loan level. Information can be accessed in relation to the total amounts approved, amount disbursed, undisbursed balances – all by funding source; amounts repaid and total outstanding balances. Reports may also be generated on dates and amounts for each disbursement as well as commitment fee and interest provisioning where these are capitalized as part of the project.</p> <p><b>Accounting method and currency.</b> The accounting method is accrual based and for the purposes of financial project reporting is cash based. The functional and presentation currency of the CDB is the US\$.</p>
<input checked="" type="checkbox"/>	Internal Control and Internal Audit	<p><b>Internal Audit.</b> The CDB has a well-established internal audit department that applies the international internal audit standards.</p>
<input checked="" type="checkbox"/>	External Control: External Financial Audit and Project Reports	<p><b>Submission of the AFS of the CDB.</b> These reports are to be presented to the Bank within 180 days following the end of CDB's fiscal year end, December 31st. The longer due date is being requested since the CDB's financial rules dictate that its AFS may not be released until approved by the Board of Governors at its annual meeting held in May/June of each year.</p>
<input checked="" type="checkbox"/>	Project Financial Supervision	<p>The CDB will have full FM supervision responsibility in relation to the sub-loans provided to the OECS beneficiaries by applying their own financial policies and will liaise with its Finance Department as it relates to the processing of payments and accounting and financial reporting.</p>



DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/22

Regional. Loan \_\_\_\_/OC-RG to the Caribbean Development Bank. Strengthening Private  
Sector Development through Innovation in the Eastern Caribbean  
OECS Member Countries

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Caribbean Development Bank, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Program "Strengthening Private Sector Development through Innovation in the Eastern Caribbean OECS Member Countries". Such financing will be for the amount of up to US\$20,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_\_ 2022)