

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Assessing institutional capabilities for effective and sustainable productive development policies
▪ TC Number:	RG-T4506
▪ Team Leader/Members:	Gonzales Cienfuegos, Alessandra Madelaine (IFD/CTI) Team Leader; Galeano Buitrago Maria Alejandra (IFD/CTI); Mendoza Benavente, Horacio (LEG/SGO); Castellanos Serrano Maria Elena (IFD/CTI); Bonilla Merino Arturo Francisco (LEG/SGO); Caceres Saldana, Claudia (IFD/IFD); Guaipatin, Carlos (IFD/CTI); Torrico Duran, Blanca Paola (IFD/CTI); Morales Reina Genesis Del Carmen (IFD/CTI)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	.
▪ Date of TC Abstract authorization:	.
▪ Beneficiary:	Chile, Paraguay, and policymakers designing productive development policies from Latin America and the Caribbean
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC SDP Window 2 - Institutions(W2C)
▪ IDB Funding Requested:	US\$150,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months
▪ Required start date:	August 2024
▪ Types of consultants:	Firms and Individuals
▪ Prepared by Unit:	IFD/CTI-Competitiveness, Technology and Innovation Division
▪ Unit of Disbursement Responsibility:	IFD/CTI-Competitiveness, Technology and Innovation Division
▪ TC included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2024-2030:	Gender equality; Institutional capacity and rule of law; Productivity and innovation

II. Objectives and Justification of the TC

2.1 **Objective.** The general objective of the proposed Technical Cooperation (TC) will be to facilitate the assessment of institutional capabilities for the effective and sustainable design and implementation of Productive Development Policies (PDPs) in the Latin American and Caribbean (LAC) region. The specific objectives of the proposed TC are: (i) to develop a conceptual framework that links institutional characteristics to PDP outcomes ; (ii) to map, using this conceptual framework, the institutional capabilities of 2 ongoing cases of PDP; and (iii) to study the contribution of IDB operations to the capacity building of institutions that enable PDP. The achievement of the objectives of this TC is associated with increased knowledge about institutional capabilities that enhance the effectiveness of PDP, improved diagnostics of public agencies' capabilities that design PDP, improved quality of financing and technical assistance given to public agencies, and improved knowledge about IDB's operations role in institutional capacity.

- 2.2 **Justification.** Productive Development Policies (PDPs) are strategic interventions that aim to improve economic productivity and competitiveness. While diverse in their application, PDPs often involve a combination of traditional private sector interventions, such as Small and Medium-size Enterprises (SME) credit lines from national development banks, innovation programs, entrepreneurship programs, improving infrastructure, and others. What sets PDPs apart is their ability to combine these interventions in a way that addresses complex, multifaceted challenges that cannot be effectively tackled by addressing each intervention individually. This implies that PDPs not only focus on the ‘what’—the specific interventions—but also on the ‘how’—the process of combining and implementing these interventions effectively. PDPs excel in merging these interventions to navigate both upstream and downstream challenges.¹ In essence, PDPs stand out for their ability to address complex challenges that cannot be tackled individually.
- 2.3 At the heart of effective PDPs lies the pivotal role of institutional capabilities, shaping their trajectory from policy conception to tangible success. Tackling the complex landscape of PDP design and implementation involves facing various challenges, from discovering effective policies to developing specialized human capital. Cornick et al (2018) and IDB (2014) show the complexity inherent in PDPs, emphasizing imperatives such as policy discovery, knowledge proficiency, private sector collaboration, the nuanced timing of interventions, and the ever-present risks of capture and rent-seeking behaviors. Moreover, Maloney & Nayyar (2018) and Rodriguez-Pose & Haredy (2014) highlight other critical aspects, including the necessity for data to gauge policy effectiveness, deficiencies in coordination capabilities for handling complex policies, and shortages in administrative skills, technical competencies, and a broader strategic vision.
- 2.4 Several authors have attempted to conceptualize a framework of institutional capabilities that lead to PDP success. However, these efforts are not comprehensive, as the authors present different arguments and emphasize different capabilities as relevant for effectiveness. A [comparison of frameworks](#) illustrates the various conceptual frameworks used to study public sector capabilities that enable effective PDPs. For example, Maloney and Nayyar (2018) focus on three institutional capabilities to foster effective PDPs: (i) collecting information; (ii) coordination ability; and (iii) defending against capture. Meanwhile, Cornick et al. (2016) consider three other capabilities as the most important: (i) technical capabilities; (ii) organizational capabilities; and (iii) political capabilities.
- 2.5 There is a lack of systematic evidence in the region regarding the status of institutional capability in agencies that design and implement effective PDPs. To address this deficiency, attempts to measure the capabilities of PDP agencies were initiated through consultancies funded by IFD/CTI in 2011 and 2014. The Mapping and Institutional Performance Index (MIDI, for its acronym in Spanish) analytical framework, developed as part of these endeavors, is grounded in the chain of supply

¹ These challenges are inherent in the combination of interventions. The upstream challenge refers to the initial hurdles in policy formulation. This includes the integration of strategies, identification of strategic sectors, coordination among various actors and government levels, and the development of necessary institutional capacities. On the other hand, the downstream challenge pertains to hurdles in policy implementation and evaluation. This involves effective selection, execution, adaptation to economic changes, and the measurement of long-term impacts. This TC aims to assess the capabilities needed to tackle the upstream challenges.

concept, offering a stylized representation of the production process of Industrial Development Policies (IDPs) (Chrisney and Kamiya, 2011). Despite these efforts, notable gaps persist in the literature, particularly in the comprehensiveness of crucial capabilities that lead to effectiveness. While Developmentis (2014) enhanced the MIDI framework, it did not encompass capabilities later identified in the literature as pivotal for the promotion of effective PDPs. Examples include: (i) protective measures against rent capture; (ii) political capabilities; and (iii) monitoring and evaluation capabilities, among others. This discrepancy underscores the need for comprehensive studies that encompass a broader spectrum of capabilities essential for the success of PDP.

- 2.6 Although the IDB has supported many programs and projects that have built capacities of public agents enabling PDP, there is no empirical and systematic evidence of that. Since 1967 and with greater emphasis since 2005, the IDB, through IFD/CTI, has supported/financed the creation and strengthening of public sector capabilities to enable PDPs. For instance, to illustrate anecdotally IFD/CTI's impact on institutional capacity enabling PDPs, we turn our attention to the case of Uruguay. In 2008, the Technology Development Program II ([2004/OC-UR](#)), financed through an IDB loan, was initiated in Uruguay to establish the first competitive funds for Research and Development (R&D) in universities and businesses. Together with the support from the European Union and the World Bank, this loan also facilitated the creation of the National Research and Innovation Agency (ANII, for its initials in Spanish), with a specific emphasis on internal learning provided by the establishment and empowering of a monitoring and evaluation unit. Subsequently, numerous IFD/CTI loans to Uruguay have strengthened public sector capacity and driven productive development in Uruguay. The 2012 loan "Support Program for Future Entrepreneurs" ([2775/OC-UR](#)) led to the creation of a program supporting future technology-based entrepreneurs. The 2014 loan "Innovation Program for Productive Development" ([3315/OC-UR](#); [3316/CH-UR](#)) established an innovation program for productive development involving various ecosystem actors. The 2019 loan "Business Innovation and Entrepreneurship Program II" ([4847/OC-UR](#)) promoted mission-oriented research, and in 2022, ANII is spearheading innovation, science, and entrepreneurship for climate change through the "Business Innovation and Entrepreneurship Program II" ([5565/OC-UR](#)).
- 2.7 Despite this institutional capacity development that led to more complex and time-appropriate service delivery, this progress has not been documented in any empirical study. While numerous studies have empirically documented the individual operations impact on local effects such as firm performance and other economic outcomes, there is a notable gap regarding the operations' effect on overall absorptive capacities – the ability of agencies to identify, assimilate, and apply new knowledge towards effective PDP formulation and delivery.
- 2.8 **Complementarity with IDB Group.** Lessons learned from this TC will enhance the design of future IDB operations that promote PDP by providing a robust framework for understanding institutional capabilities, improving diagnostics of public agencies capabilities, offering evidence-based insights for capacity building, and ultimately ensuring that technical assistance and financing are more effectively tailored to the specific needs and contexts of public agencies. This will lead to more strategic alignment and coordination, making future IDB operations more cohesive and impactful.
- 2.9 **Climate Change.** Institutional capacities for effective green and sustainable productive development policies are a complex and multifaceted issue, influenced by

a range of factors. This is supported by Wang et al. (2022), who highlight the role of government and the challenges of coordination in sustainable economic development through green policies, green entrepreneurship, and green technological innovation. Berkhout et al. (2018) further underscore the positive impact of local institution strengthening on public service delivery and governance satisfaction. Qi et al. (2021) highlights the role of institutional pressures and absorptive capacity in driving firms' green innovation decisions. According to the Global Climate Risk Index 2021², Latin America and the Caribbean region are particularly vulnerable to the impacts of climate change, with countries like Haiti, Puerto Rico, and the Bahamas ranking among the top 10 most affected countries in the past 20 years. This underscores the urgency of integrating climate change considerations into PDPs. Rodrik (2014) argues for the use of industrial policy to facilitate green growth, emphasizing the need for well-targeted and effective interventions. Mathews (2015) discusses the role of the state in driving the transition to green growth, particularly in emerging economies, and the need for strategic planning and sustainable development. Fløysand (2022) adds a regional perspective, exploring the dynamics of institutional work by key actors in achieving green industrial restructuring, and the influence of regional institutional logics. These studies collectively underscore the importance of a strong and specific institutional framework, to foster effective policy interventions that drive sustainable and green PDPs.

2.10 **Gender.** The capacity of institutions to effectively promote gender equality is a complex and ongoing process, influenced by a range of factors. Ravindran et al. (2021) emphasize the need for well-established and specific strategies, including accountability, gender architecture, and learning process. Loots & Walker (2016) emphasize the need for a capabilities-based approach to gender equality in higher education, which take into account the diverse needs and values of different social groups. Rao & Kelleher (2006) underscore the importance of development organizations and institutions in challenging and transforming social norms that perpetuate gender inequality. According to the World Economic Forum's Global Gender Gap Report 2021, only 58% of the gap in economic participation and opportunity has been closed so far. The remaining gap is projected to be closed in 267 years. These studies collectively underscore the need for a comprehensive framework of institutional capacity for gender equality in PDPs.

2.11 **Strategic Alignment.** The TC is consistent with the IDB Group Institutional Strategy: Transforming for Scale and Impact (GN-3159-12) and is aligned with the objectives of: (i) Bolstering Sustainable Regional Growth by enhancing the institutional capabilities required for the effective design and implementation of PDP as it will develop a comprehensive conceptual framework, mapping institutional capabilities, and studying the impact of IDB operations on capacity building; and (ii) Address Climate Change by providing a comprehensive framework to assess institutional capacities to drive sustainable and green PDPs.. The TC aims to provide valuable insights and tools that will improve the effectiveness of the IDB actions in the LAC region. The TC is also aligned with the operational focus areas of: (i) Institutional Capacity, Rule of Law and Citizen Security; (ii) Productive Development and Innovation through the private sector; and (iii) Gender Equality and inclusion of diverse population groups. Furthermore, this TC is consistent with the Innovation, Science, and Technology Sector Framework Document (GN-2791-13), specifically Line of Action 5, which aims

² This information is available at [Global Climate Risk Index | Germanwatch e.V.](#)

to strengthen key institutions to drive innovation. The outputs and findings of this TC will provide a framework for assessing institutional capacities, facilitating the design of tailored PDPs. The TC is aligned with the objective of contributing to public policies and institutions that are more effective, efficient, transparent, and citizen-centered of the Ordinary Capital Strategic Development Program (W2C) (GN-2819-14).

- 2.12 This is a Regional Research and Dissemination TC³, yet some specific countries are expected to benefit from the results of this TC, primarily because of the generation of the framework and its use to map the capacities of countries where ongoing PDPs are being executed. TC is aligned with the country strategies: IDB Group Country Strategy with Chile 2022-2026 (GN-3140-3): The proposal aligns with the line of action of strengthening institutional capacities and enabling the economy of the future. IFD/CTI is currently accompanying the Chilean Economic Development Agency (CORFO) in its strategy for sustainable productive development, adopting a comprehensive approach with a particular focus on strategic industries for energy transition such as green hydrogen (H2V) and lithium. Mapping CORFO's capabilities in facilitating this PDP is essential, especially considering that other countries in the region are embarking on similar trajectories in the pursuit of sustainable and productive economic advancement. IDB Group Country Strategy with Paraguay 2019-2023⁴ (GN-2958): The proposal aligns with the line of action of public management and institutions. Since 2013, IFD/CTI has been instrumental in supporting and financing Paraguay's initiative to develop advanced human capital. Through impact evaluations, these programs have shown to be successful in building a supply of advanced human capital. Throughout three significant loans, IFD/CTI has played a pivotal role in strengthening the capabilities of CONACYT, making a substantial contribution to the continuous progress of this PDP. Consequently, the case of Paraguay becomes particularly significant for study, offering valuable insights into the necessary public sector capabilities to develop effective strategies for advancing human capital. subheading should facilitate a clear understanding of the objectives and the problem the TC aims to address.

III. Description of activities/components and budget

- 3.1 **Component 1. Development of conceptual framework of institutional capacities that lead to effective PDPs (US\$69,000)** This component is dedicated to developing a comprehensive conceptual framework. The goal is to link institutional characteristics to PDP outcomes and to theoretically distinguish between less and more significant characteristics. The creation of this framework will be guided by two complementary approaches: (i) theoretical; and (ii) empirical.
- 3.2 The theoretical approach involves identifying the institutional characteristics contributing to PDP success. The TC team will design this theory of change and inform it through a literature review of existing frameworks and case studies of effective PDPs in the region. The review will highlight the type of PDP, key government capacities and external factors that influence PDP outcomes helping the TC team's work in establishing the theoretical framework.

³ This TC does not anticipate conducting activities in beneficiary countries. It is acknowledged that no TC activities will be carried out in any of the beneficiary countries until the corresponding request or non-objection letter is received.

⁴ This strategy is valid as of its approval until December 31st, 2023, and remains valid during its transition to the new strategy for one more year.

- 3.3 Building on the findings from the theoretical review, the empirical approach will test the identified links of the conceptual framework design by the team. This approach will lead to the construction of a model of institutional capacities that contribute to effectiveness. Data for this empirical analysis will be sourced from the Platform for the Analysis of Institutional Capacity (PACI)⁵, with project performance data extracted from the Project Monitoring Report (PMR) and the Project Completion Report (PCR).
- 3.4 In specific, this component will finance the following outputs: (i) literature review of institutional capacities leading to effective PDPs; (ii) construction of a database including all the projects and program consider as PDPs for the analysis,⁶ these policies and the analysis will be grouped by shared objectives (outcome indicators) to allow for systematic evaluation; (iii) construction of database produced with harmonized information from the PACI questionnaires⁷ of productive development loan projects; (iv) construction of database produced with harmonized information of IDB performance indicators built from the PMR and PCR ratings; (v) document with conceptual framework of institutional capacities correlated with effective PDPs including theoretical and statistical analysis; (vi) document with checklist of questions for project teams to assess institutional capacities of government agencies; (vii) hybrid focus groups organized to engage with experts, and practitioners from the IDB who are involved in PDP to gather their feedback on the proposed framework; and (viii) dissemination activities.
- 3.5 This component aims to provide a robust foundation for understanding and assessing the institutional capacities that drive the success of PDPs, thereby contributing to more effective and sustainable productive development policies.
- 3.6 **Component 2. Implementation of the Conceptual Framework in Ongoing PDP Cases (US\$ 20,000)** This component focuses on the practical application of the conceptual framework developed in Component 1. Its primary objective is to implement the framework in ongoing PDP cases in both Chile and Paraguay using desk reviews and information already produced from previously approved operations. By doing so, we aim to rigorously test the effectiveness and adaptability of the framework in real-world scenarios, and gain insights of the capabilities of the agencies implementing PDPs in Chile and Paraguay.
- 3.7 In specific, this component will finance two outputs: (i) report with results from the conceptual framework implementation, highlighting the impact of institutional capabilities on PDP effectiveness. The report will utilize a combination of methods including desk reviews, existing study cases, and existing analysis of organizational

⁵ The PACI is an IDB tool that, since 2021, facilitates the process of gathering and analyzing information to assess institutional capacity among IDB operations. The PACI is comprised of 6 sets of questionnaires covering the following areas of: (i) legal framework, governance and institutional environment; (ii) human resources management; (iii) financial management; (iv) procurement management; (v) project management; (vi) environmental and social safeguards management. For each module, the Platform analyzes the “conditions of executability” that are considered must satisfy the Executing Agency. These conditions are analyzed based on appreciative questions about the state of the condition, which are classified as minimal, additional and non-evaluable. (informative).

⁶ While diverse in their application, PDPs share common characteristics. They are strategic interventions aimed at improving economic productivity and competitiveness through specific objectives such as fostering innovation, enhancing skills, promoting entrepreneurship, improving infrastructure, and facilitating access to finance. Given that no two PDPs are the same, grouping PDPs by these shared objectives allows for differentiated systematic evaluation.

⁷ It is important to notice that there is no systematization of the PACI, database needs to be built from zero.

structures, among others; and (ii) a comprehensive report detailing the implementation of the conceptual framework in the chosen agencies (Chile and Paraguay) using existing information from approved operations. This report will include insights, challenges, and lessons learned.

- 3.8 Component 3. Analyzing IDB’s Operations’ Contributions to Capacity Building (US\$ 61,000)** This component aims to empirically study the IDB PDP operations’ contribution to capacity building. To empirically study that, several methodological challenges are encountered. The primary obstacle lies in the inability to directly observe pertinent data on agencies’ institutional capacities. This component acknowledges the difficulty of studying these intricate processes directly and seeks to bridge the gap through a combination of interviews to productive development policy makers and empirical research.
- 3.9** Conduct semi-structured interviews with team leaders of PDP projects from the IDB. These interviews will focus on identifying processes where the financing/interaction with IDB has promoted better institutional capabilities. Key areas of improvement include procurement, monitoring and evaluation systems, and other operational processes. Insights from these interviews will provide practical evidence of IDB’s impact on capacity building.
- 3.10** Issue a call for proposals to engage external researchers and experts. These proposals will focus on developing methodologies to assess IDB’s operations and their influence on capacity building in PDPs. The selected proposals will lead to rigorous empirical studies, addressing the methodological challenges.
- 3.11** In specific, this component will finance three outputs: (i) report with the findings of semi-structured interviews; (ii) call for proposals designed and released; (iii) selected research financed to assess the impact of IDB’s operation on capacity building in PDPs.
- 3.12** The total cost of the TC is US\$150,000 to be financed with resources of the Ordinary Capital Strategic Development Program for Institutions (W2C) to be executed and disbursed up to 36 months, as follows:

Indicative Budget (US\$)

Activity/Component	Description	IDB/Fund Funding	Total Funding
Component 1	Development of a conceptual framework of institutional capacities that lead to effective PDPs	69,000	69,000
Component 2	Implementation of the Conceptual Framework in Ongoing PDP Cases	20,000	20,000
Component 3	Analyzing IDB PDP Operations’ Contributions to Capacity Building	61,000	61,000
Total		150,000	150,000

IV. Executing agency and execution structure

- 4.1 The executing agency for this TC will be the Inter-American Development Bank (IDB) through the Competitiveness, Technology, and Innovation Division (IFD/CTI). The CT proposes that the Bank act as the executing agency and, therefore, be responsible for the consultant procurement processes in accordance with the Appendix II of document OP-619-4.
- 4.2 The execution and disbursement period will be 36 months and the UDR will be IFD/CTI. All activities to be executed under this TC have been included in the Procurement Plan and will be contracted in accordance with Bank policies as follows: (a) AM-650 for Individual consultants; and (b) GN-2303-33, and Guidelines for Corporate Procurement. The knowledge products generated within this technical cooperation will be the property of the Bank and may be made available to the public under a creative commons license. However, at the request of a beneficiary, in accordance with the provisions of AM-331, the intellectual property of said products may also be licensed to one or more beneficiaries through specific contractual commitments that shall be prepared with the advice of the Legal Department.

V. Major issues

- 5.1 At the time of design, there are no special issues for analysis, beyond those that are common to most projects. However, the most important risk for this TC lies in conducting the research itself. As with any empirical study, there can always be unforeseen obstacles during data collection, analysis, and interpretation. Therefore, careful planning, flexibility, and contingency measures will be essential to mitigate potential challenges. To address these risks effectively, we propose the following mitigation strategies: (i) robust research design that anticipates potential hurdle; (ii) stakeholder engagement by regular consultations with project teams and policymakers to navigate unforeseen difficulties; and (iii) foster a collaborative environment with the research team of these proposal where problem-solving skills are encouraged.

VI. Exceptions to Bank policy

- 6.1 At the time of design, this TC does not contemplate any exceptions to Bank policy.

VII. Environmental and Social Aspects

- 7.1 This Technical Cooperation is not intended to finance pre-feasibility or feasibility studies of specific investment projects or environmental and social studies associated with them; therefore, this TC does not have applicable requirements of the Bank's Environmental and Social Policy Framework (ESPF).

Required Annexes:

[Results Matrix_80104.pdf](#)

[Terms of Reference_11116.pdf](#)

[Procurement Plan_72774.pdf](#)