

ADB Urban Day 2010
Livable and Sustainable Cities in Asia and the Pacific



IDB

**Competitive Cluster Development:
Experiences from Latin America**

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Capital Markets and Financial Institutions / Competitiveness and Private Sector Development**

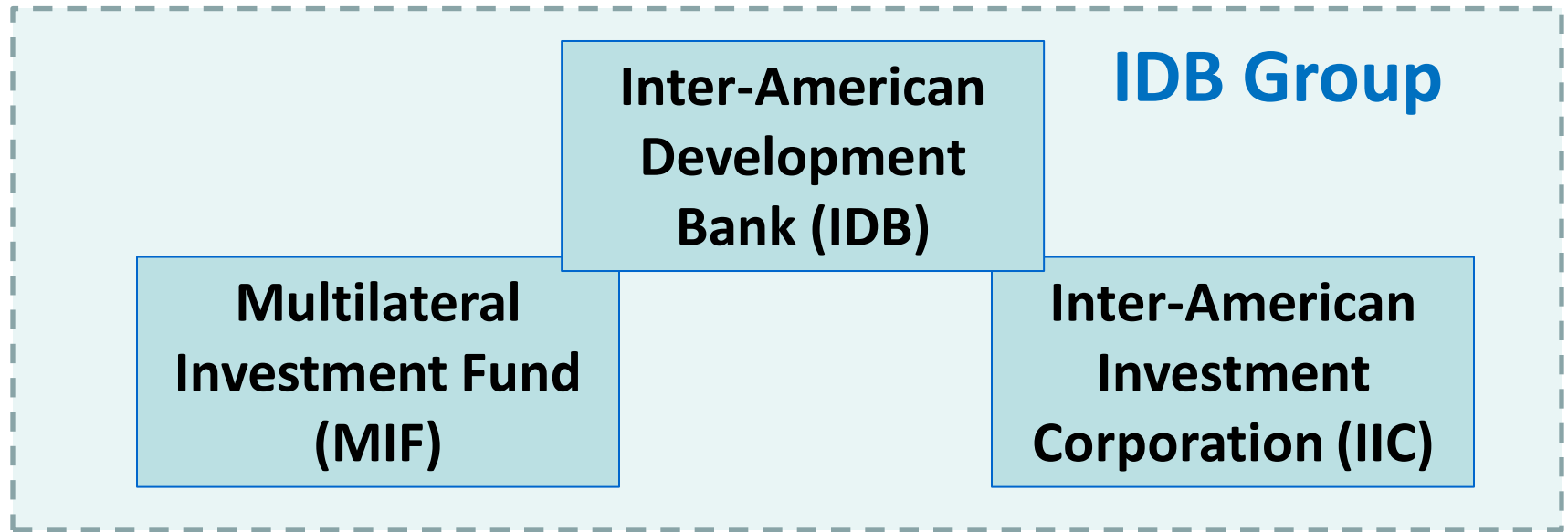
Inter-American Development Bank

November 5th 2010

Presentation Structure

1. IDB approach to Cluster Projects
2. Financial Scheme and Institutional Arrangements
3. Clusters projects from Incubation to Expansion
4. IDB Projects in LAC
5. Questions, Lessons and Challenges

IDB Group: Competitiveness, Cluster and SMEs



- IDB (Sovereign Guaranteed -SG): Competitiveness Loan Operations, Cluster projects, Multisectoral Loans
- IIC (Mostly NSG): Direct loans, equity, guarantees. Financing for SMEs.
- MIF (Matching Grants): SMEs and public and private entities.

What is a Cluster? IDB Working Definition

- At IDB for operational purposes “Cluster” is defined by its features, as Productive Agglomeration focused on local links to generate and strengthen competitive advantages.

Elements:

- A Cluster is based on a territory,
- A Cluster is a set of institutions for productive development.
- A Cluster is a coordination entity

IDB Cluster Projects in LAC

IDB works in cluster development through Loan operations, matching grants and co-financing (MIF), and credit to private sector (IIC).

More than 15 loan operations in the last decade totaling US\$250 million.

Characteristics:

- National or subnational/territorial approach.
- Financial and non financial support to enterprises
- Clusters are part of general programs for SMEs
- Goal is to strengthen export oriented productive sector
- Integral programs for specific production chains
- Institutional Development is a main component



Cities in Asia and Latin America

Cities in ASIA

Cities*	Population	Area
Tianjin, China	12 mill	12,000 km ²
Melbourne, Australia	4 mill	9000 km ²
Chiang Mai, Thailand	1 mill	3000 km ²
Bangalore, India	6 mill	700 km ²
Manila, Philippines	11 mill	600 km ²

Cities in LAC (where IDB Cluster projects are located)

Cities*	Population	Area
Mendoza, Argentina	< 1 mill	54 km ²
Sao Paulo, Brazil	11 mill	8,000 km ²
Santiago, Chile***	5 mill	15,000 km ²
Dominican Republic***	10 mill	50,000 km ²
Minas Gerais, Brazil**	20 mill	600,000 km ²

* Metro Area **State of Minas Gerais ***Country



IDB Cluster Development Projects – Loan Operations



Country	IDB Financing (US\$)
Brazil (5)	Total 50 million
Argentina (3)	Total 150 million
Uruguay	9 million
Chile (12 regions)	20 million
Honduras	10 million
Dominican Republic	9.4 million

More than 5 projects finished;
More than 7 in the design/pipeline stage.

Advantages of Applying Cluster Projects in LAC

Demand for Cluster Development Projects are increasing:

Because:

- At political level, decentralization is making stronger sub-national states with more control of budget and resources.
- At productive level, larger countries are having a more developed private sector with global competitive firms. See “Multilatinas”

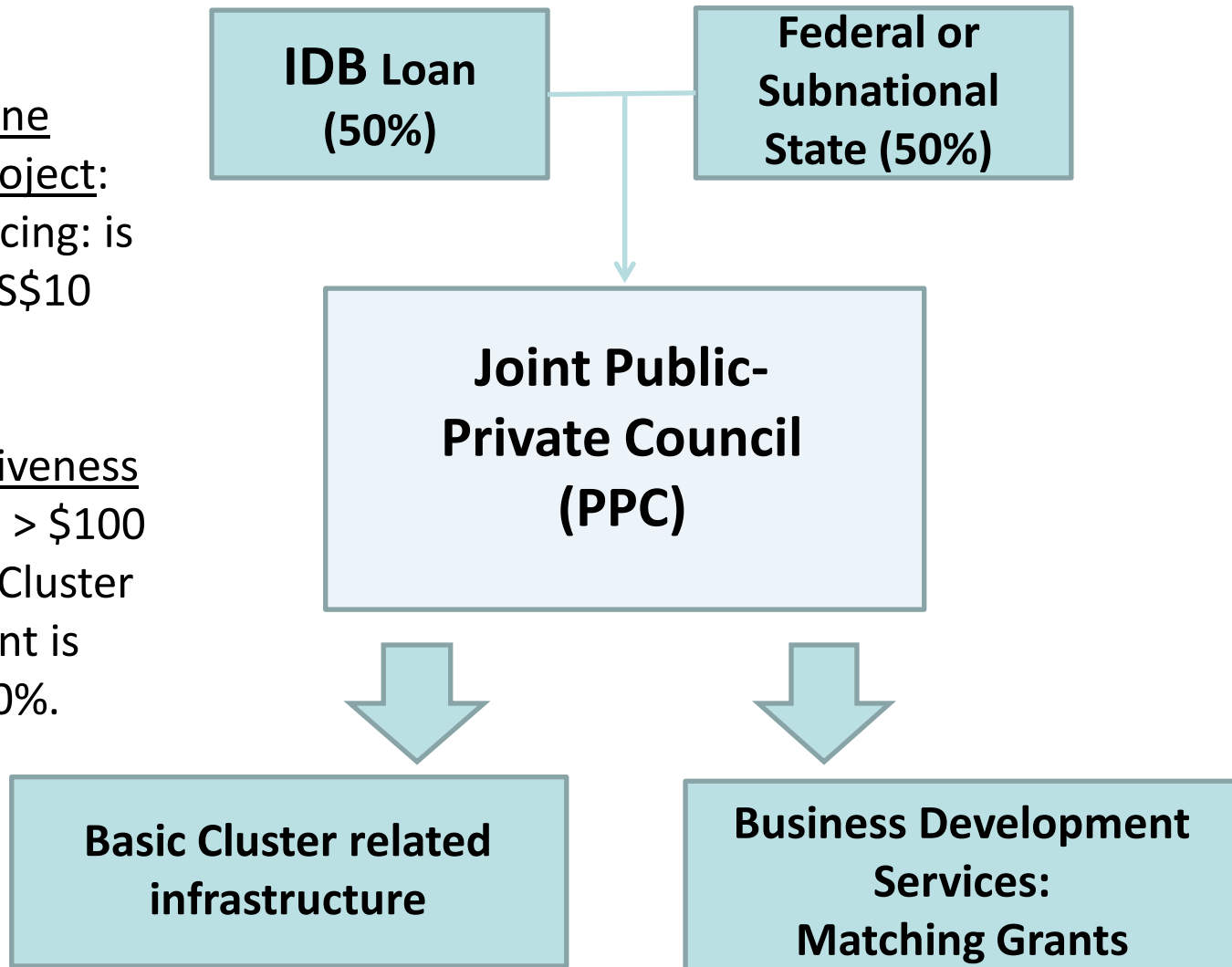
And are flexible:

- Cluster projects are good vehicle to strengthen dialogues and develop institutional capacity.
- Easier to combine short term goals with long-term vision.
- Cluster projects can be expanded or reduced based on funding.

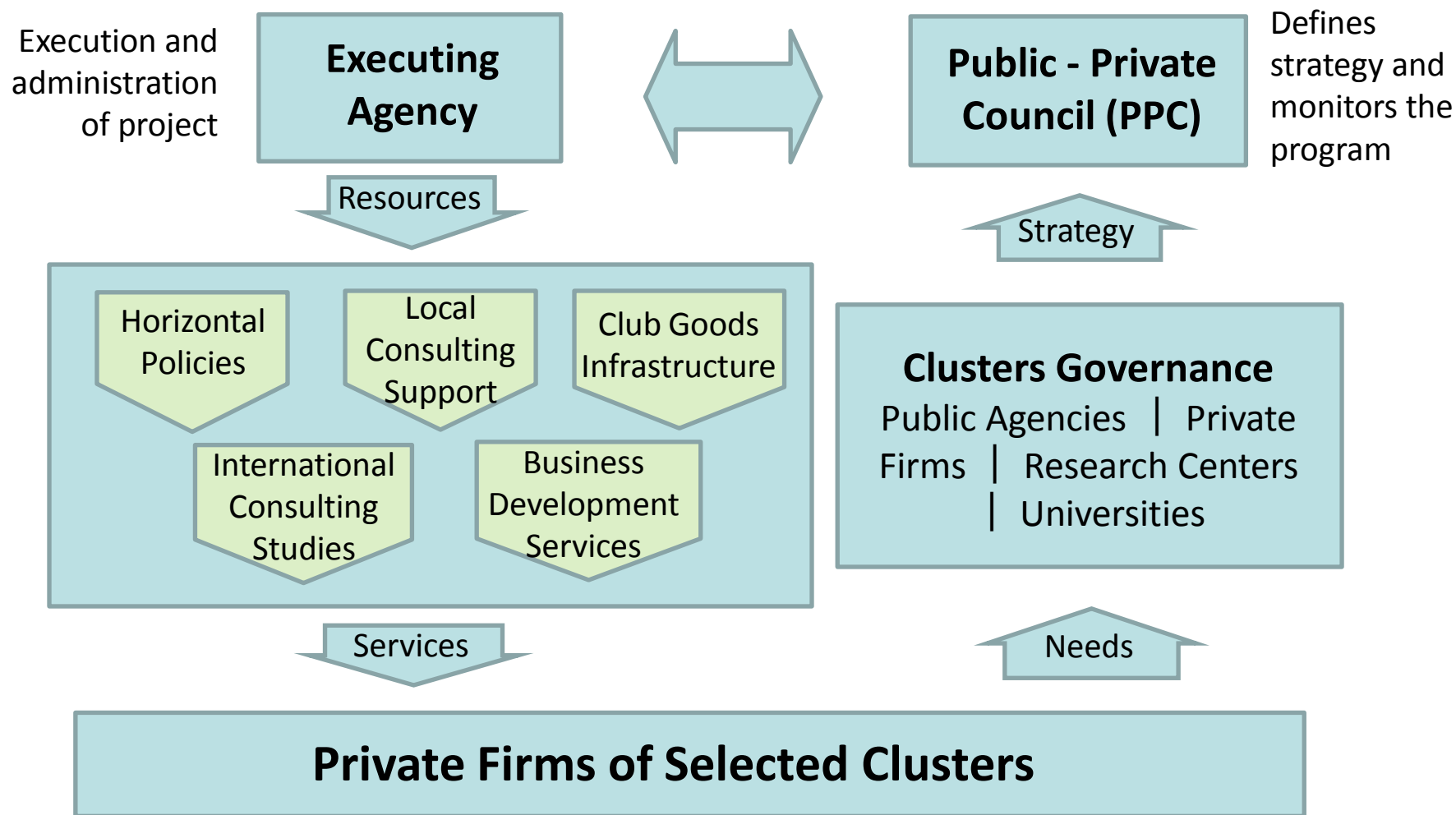
IDB Cluster Project – Example of Financing Scheme

Stand Alone cluster project:
IDB Financing: is around US\$10 mill.

Competitiveness Loan: i.e. > \$100 mill., the Cluster component is around 10%.



IDB Cluster Project: Institutional Structure of Operation



Typical Stages of an IDB Cluster Project

Designing a Cluster Development Project



Mapping: Selecting clusters sectors, defining criteria for SMEs support, hiring international consultancy studies.

Planning: Creation of Public-Private Council, Mobilization and dialogues, preparation of diagnostics and action plans.

Action: Managing coordination, provision of public goods, horizontal policies, club goods and basic infrastructure.

Examples (Execution): Uruguay – Productive Chains

Year: Since 2005 / IDB: US\$75 million / + 12 clusters

- Objectives: Contribute to sustainable development of agglomerations and productive chains, acting on coordination and market failures.
- Selected Clusters: Processed Food, Software, Audiovisual, Garments, Tourism, Music, Handcraft, Shoes, Design, etc.
- Financing: Loan for Programmatic of Competitiveness (US\$75 million) part of this dedicated to this program. Matching Grants for SMEs available.

Examples (Execution): Uruguay – Productive Chains



WINE - GOURMET



BEEKEEPING



CRAMBERRY



PRECIOUS STONES



FOOTWEAR AND LEATHER



DESIGN, ARCHITECTURE, ETC.

MEC - UNAONU



MUSIC / PUBLISHING



PROCESSED FOOD



SOFTWARE



AUDIOVISUAL



GARTMENTS



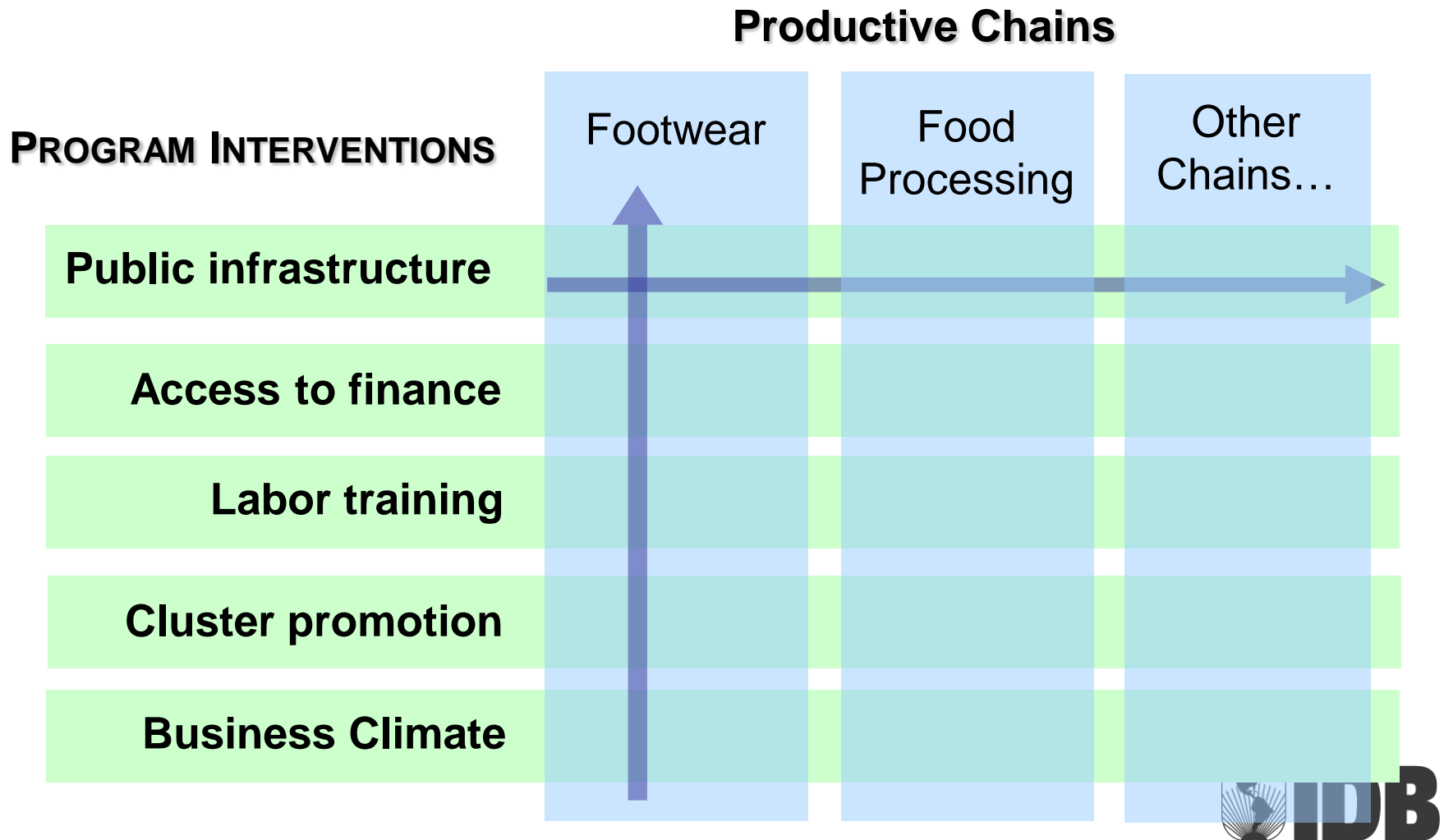
TOURISM - Montevideo



TOURISM - Colonia

Examples (Execution): Uruguay – Productive Chains

Integrating Public Intervention with Private Sector Needs



Cluster Hybrid Projects

Argentina - San Juan – Cluster and Finance

- Cluster Development with productive support and banking access component (US\$18 million IDB, US\$20 million counterpart).
- Components: Financial support, non-financial support, institutional capacity.

Dominican Republic – Competitiveness Loan with Cluster Component

- Programmatic Policy-Based Loans (PBP) with (US\$10 million) cluster development component.

Components: Cluster Consolidation, Cluster Expansion, Pilots.



IDB Cluster Project: Tools

Impact evaluation and measurement are key:

- Cluster toolkit (In preparation)
 - Propensity Score Matching (PSM)
 - Other techniques to analyze firm-level data
- PDP Index for Institutions and Programs (Piloting in progress)
 - Institutional Performance
 - Program effectiveness
- Social Network Analysis (i.e. McDermonett-Argentina)
 - Improved interaction and social links
 - Policymaking and strategic links for sustainability

IDB Cluster Project: Examples of Outcomes

- Final Outcome: Increase in competitiveness of territory/country
 - Increase in at least 5% in sales per worker
 - Increase in at least 10% of sales outside territory/ or exports
- Outputs at cluster level

Compared to initial baseline, the average outputs must be:

 - 10% Increase of companies introducing new products and processes.
 - 100% increase in productive linkages, joint marketing campaigns, joint productive operations
 - 20% increase in R&D activities

Cluster and SMEs Projects: Impact

- Increase in sales, employment and competitiveness
 - IDB Cluster projects (see logical framework and Dev. Matrix)
 - Job creation then poverty reduction (IDB MIF 2007)
 - UNIDO Cluster studies (thematic evaluations of interventions)
 - Cluster projects in East Asia (Sonobe and Otsuka 2008)
- SMEs and Policies at firm level results
 - Gains in productivity through microdata analysis in LAC, programs in 5 countries
(World Bank, Hong Tan and Acevedo 2010, and previous studies).
 - SMEs policies Increase productivity. 16 countries focusing on training, quality control, export promotion, credit.
(IDB, Ibarra, Maffioli, Stuchi, 2010)

Cluster Projects: Keys to Success

- Political support from the top (President, Minister of Finance);
- Involvement of the private sector since the initial stages;
- A well defined cluster vision for the short, medium and long term, often carried out by an international expert;
- Institutional capacity of the counterpart with skills and resources is needed with long-term view;
- Keep public managers to secure the implementation and “the memory” of the project;
- Disseminate results and increase support and awareness.

Cluster Projects: FAQ and IDB Approach

- Goal of a competitiveness project: act on poverty and jobs?
 - Productivity is the main goal, acting on poverty and jobs.
- Working with large firms or smaller ones?
 - Large firms are key for SMEs for productive linkages.
- Microenterprises or just SMEs?
 - Raise productivity above program costs may be difficult.
- SMEs programs are always efficient?
 - Intervention should be horizontal and serving formal firms.
- Urban clusters, and what about rural clusters?
 - Intervene in rural zones when is key for a value chain.



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IDB Approach to Private Sector Development

1. Macro Level: Business Environment

- Regulatory framework, institutional and political reform;
- Financial markets strengthening / Long-term financing;
- Doing Business Reform

2. Micro Level: Productive Development Policies

- Cluster and Value Chain Development;
- Institutions for Competitiveness;
- Business Development Services;
- Innovation and Firm-Level Productivity

The Logic of Interventions

Horizontal

Vertical

**Public
Input**

**Business climate,
Educated labor force,
Basic infrastructure,
Exchange rate policy**

**Roads for certain areas,
Cold storage logistics,
Food safety controls**

**Market
Intervention**

**R&D, Subsidies,
Training programs,
Tax exemptions,
High uniform tariff**

**Sector specific tax quotas,
Sector specific production,
subsidies**

Source: IDB 2010 “The Age of Productivity”

Productive Development Policies (PDP): New Framework for Cluster Development

- Promotion of conditions for enterprises performance within a territory;
- Cluster development programs comprise a broad set of elements such as productive agglomerations, value chain, and production network initiatives;
- Institutional dimension integrating public and private sector related with productive capacity in the region;
- Emphasis in generation of “Marshallian externalities” and public goods;
- Intensification of Horizontal PDPs in place such as investment and export promotion, innovation, training, financial and non financial support to SMEs.

Examples (Execution) : Brazil – Bahia

Year: Since 2005 / IDB: US\$10 million / + 4 clusters

- Objectives: Integrate local efforts to strengthen Arranjos Produtivos Locais (APL).
- Components: i) Mobilization, ii) Business Development Services, iii) Horizontal Interventions, iv) Supervision and Management
- Selected Clusters: mainly petrochemical, P&C for carmaking (Ford plant)
- Financing: BID (US\$10.0 mill), Counterpart (US\$6.7), TOTAL US\$16.7

Examples (Starting) : Brazil – Minas Gerais

Year: Since 2007 / IDB: US\$10 million / + 10 clusters

Objectives: Integrate local efforts to strengthen Arranjos Produtivos Locais (APL).

Components: i) Public-Private institutionalization to support competitiveness and PMC (Competitiveness Improvement Plan), ii) Implementation of PMC in selected cluster (APLs), iii) , Monitoring, Impact Evaluation and Best Lessons.

Selected Clusters: Overall PMC items for mainly Electronics and Shoemaking sectors.

Cluster Projects: Challenges Ahead

Business Risks, Results, Impact, Comprehensive approach

- The selection of the clusters to be supported and the activities to be prioritized have an inherent business risk;
- The monitoring and evaluation of these types of projects is complex;
- Integrated programs: business climate, access to finance and infrastructure provide superior framework for the development of private sector but at the same time are more complex to prepare and implement.