

**TCI DC Forum Meeting Minutes
SRI International October 25, 2005**

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Introduction by Meeting Chairman:

Ifor Ffowcs-Williams, TCI

Purpose of our meeting today: to hear from donors how they view competitiveness and the opportunities in developing countries to identify issues we should concentrate on for the next 6-9 months

Donor Presentation #1:

Benjamin Herzberg, World Bank

Findings of study, “Competitiveness Partnerships—Building and Maintaining Public-Private Dialogue to Improve the Investment Climate,” by Benjamin Herzberg and Andrew Wright

- 1) World Bank tends to view competitiveness from investment climate perspective
- 2) Conducted a survey of 24,000 firms in 58 countries
- 3) Findings:
 - a) Infrastructure is hugely important
 - b) Job training is less important
 - c) More red tape in a country = more corruption (more hoops for a firm to go through in order to register, for example, leads to more opportunities for rent-seeking behavior)
 - d) Study also looked at land registration
 - e) Rigidity of employment regulation (labor law)
 - f) Desirable intersection of the following three is where the opportunities to promote competitiveness lie:
 - i) Policies desirable (supported by learning about good practice)
 - ii) Political feasibility (supported by reform management)
 - iii) Administrative feasibility (supported by capacity building)
 - g) Competitiveness Partnerships are how to widen the above intersection: public-private dialog is the key.
 - h) Important to think about process, because not all dialog is created equal. Not enough simply to have dialog—it must be effective and driven by practical goals.
 - i) Feb 1 and 2 Public-Private Dialogue conference in Paris

Donor Presentation #2:

Martin Chrisney, IDB

- 1) IDB has four mandates:
 - a) Trade Integration
 - b) Social Development
 - c) Modernization of the State
 - d) Competitiveness, which is defined by all that is not trade integration, social development or modernization of the state
- 2) We find that loans for policy-making activities don't often work.

- 3) We are trying to build the consultative process by working with the national competitiveness councils and cluster groups. We find that smaller-scale approach works better.
- 4) Tools we've developed for competitiveness
 - a) Competitiveness Councils to bring in NGO and private sector to discuss with public sector. To address the funding we began the Competitiveness Fund
 - b) Surveys to gain micro-level information important for competitiveness activities
 - c) Business Climate Initiative is a new effort to address administrative barriers to business operation and start-up
- 5) Some of the lessons we've learned:
 - a) Can't pick the sectors. Needs to be an open process
 - b) Pick quick-fix issues that are manageable and identifiable—particularly at the beginning of the process
 - c) Associative groups are more likely to succeed
 - d) Don't exclude foreign firms from competitiveness activities
- 6) Conclusion: we feel banks are not the ideal mechanisms to promote competitiveness. Raising equity is the key; making loans is not because they produce more debt. Grants may be the way to do this. And, multilaterals do not remain in the country for the long-term. Projects end and then initiatives end before sustainability is possible.
- 7) Tools for going forward:
 - a) Diagnostic tools for clusters is important. They help pick the characteristics of a good firm
 - b) Monitoring and Evaluation tool needed. But how do we select the proxies of success?

Donor Presentation #3:

Juan Belt, USAID

- Competitiveness is about total factor productivity: labor, capital, growth and productivity
- USAID now mostly gives grants.
- Look to Chile for example of good evaluation of results.
- Sydney Lewis' "The Mitchell Report" did not paint a rosy picture of the success of USAID's competitiveness projects.
- Skeptical about being able to provoking cluster activity.
- The USAID Administrator has a microenterprise council.
- Interesting to see how businesses can embed ICT into business climate to improve micro-level activity.

Summary of the Presentations:

Kevin Murphy, J.E. Austin

- Can donors stimulate clusters? USAID and IDB are skeptical.
- Continuity: is the 3-5 years of a typical donor project enough time to expect results from cluster promotion activity?
- Clusters should be viewed as a means to an end rather than an end in themselves.
- How can TCI be involved in this process?

Discussion & Comments by Participants:

Alfred Rosenbaum (George Washington University): how do clusters operate when the product is services, such as tourism, rather than goods? Tourism offers interesting case since it is usually by nature a public and private operation. The value chain is also very tight.

Colleen Norton, Nathans Associates: What role for TCI? I think it should operate like a standards-setting body. First step is to define terms, for example cluster. Second role can be knowledge manager for clusters and competitiveness.

Matty Matheson, SRI: What is the big picture? Development economics has always struggled to act as a catalyst for change. Economics by nature is effective in its descriptive function; less so in its instigative.

Linda Nemec, DAI: TCI role should be to bridge gap between what we as practitioners know about developing countries and those cluster and competitiveness practices which have worked in developed economies.

Benjamin Herzberg (Worldbank): The World Bank does in fact have competitiveness activities in services (to answer Alfred's question).

Peter Boone: TCI could respond to competitiveness questions by donors. We can create the cookbooks full of competitiveness recipes.

Egon Terplan, ICF: Instead of cookbooks let's think about it as open-source code for competitiveness, a dynamic set of practices which are constantly updated and improved upon by those practitioners who are in the field gaining recent experience with implementation.

Randall Kempner, (Competitiveness Council): TCI can help create training programs and mediation services. Provide help with some of the soft skills donor projects need.

Melissa Bennett (Competitiveness Council): TCI can help with country-specific information.

Brian Talbot (independent): TCI can promote an open set of tools to use.

Colleen Norton, NA: Let's think about two baskets:

- TCI as knowledge community basket. Collect and manage knowledge about competitiveness.
- Basket for developing tools and standards. These can help us reach milestones, not macro-level indicators. Important to begin to identify the short- and medium-term indicators that competitiveness activities can reach.

Paul Gomez, World Bank: the Bank's Poverty Reduction Strategy Paper process has been very painful. It is good at identifying poverty, mapping out the problem, but doesn't provide solutions for assuaging it.

Benjamin Herzberg:

1. How are clusters used in reform process? Is there evidence of clusters as pilots?
2. Can clusters even help to reduce poverty?
3. Do they work in conflict and post-conflict countries?

Neal Nathanson, USAID EGAT: The attempt to create a cookbook is where USAID got off track. The Mitchell Report conflated clusters and competitiveness. Now AID missions are experiencing “buyers’ remorse” when it comes to competitiveness. TCI can play a role with definitions. Let’s define competitiveness.

Presentation by Christian Ketels: “Greenbook II”: Cluster Initiatives Research

There is an increased need for data when it comes to clusters and competitiveness. Data was collected and organized along four categories: structure, context, activities, and impact. Cluster Initiative Survey focused on first three, not impact. 176 participants.

The data:

- Policy Environment: donors are operating in areas where the weakest clusters are found. This may be a selection issue but the data suggest that donor activities are not doing much to instigate cluster development.
- Industry Selection
- Cluster Strength : find low trust operating in many places
- Objectives: is the focus on exports always the right focus to have?
- Roles of Cluster Initiative participants: when the private sector doesn’t perform, the donors step in. But when the donors pull out, the government does not tend to step in to continue cluster activities.

Issues:

- Are these results or root causes of something else? Where should we focus our attention?
- Long-term development goals vs. short-term organizational needs
- Integrate cluster development into broader development strategies. Clusters are not an end in themselves.
- Need to develop a market for cluster development services.

Q&A:

Reid Lohr (Chemonics): did you find apex firms or cluster leaders in your study? Did they perform differently from others you encountered?

No the data did not identify apex firms.

Neal Donahue, OTF: Is the data usable for M&E purposes?

No not really.

Benjamin Herzberg: did you find a relationship between successful clusters and performance of firms that cluster?

No, not from this survey.

Discussion:

Colleen Norton, NA: I suggest we think about a spectrum of belonging when it comes to assessing associativity, so we can place firms at various degrees of associativity. There is a danger of defining success with indicators that don't necessarily capture the benefits that can be gained by associativity.

Albert Rosenbaum, GWU: Important to keep in mind the perpetuation of colonial and post-colonial relationships and arrangements.

Santiago Sedaca, Carana Corp.: there is often criticism that too much emphasis placed on horizontal linkages and not enough on vertical (value chain) linkages, which after all is where the commercial transactions take place. Can TCI respond to this?

Peter Boone, SRI: the development cluster is not very specialized.

Don Mickelwink, fmr DAI, now ...: Competitiveness is rather easy to measure; we have measurements for it. Where we get confused is when we conflate clusters with competitiveness. That muddies the waters.

Neal Donahue, OTF: Clusters are the groups that provide opportunities for collaboration.

Martin Chrisney, IDB: Past experience has shown that sustained growth comes from investment and export. This collaborative format enables the step into international sphere and international competitiveness. At their best, clusters can overcome bad policy environment and a distorted export environment. Fixing the policy environment, we've learned, is not always enough. In Central America, for example, the major growth centers are often not in the capital cities.

Benjamin Herzberg: Let's look at the mechanics of USAID contracting. There's a reason they are called Beltway Bandits, because they follow the money. The question is, is USAID open to new ideas?

Neal Nathanson, USAID: I'd say USAID actually follows rather than leads. Quite responsive to new ideas.

Linda Nemec, DAI: Plenty of innovation comes from the contracting community.

Santiago Sedaca: The question we should be asking donors is, "How can we make a constructive dialog about this topic?"

Juan Belt, USAID: Natsios is interested in working with local institutions more and more. RFPs to come will include more emphasis on working with local institutions.

Martin Chrisney, IDB: Remember the real market is in developing countries, not in DC. Multilaterals are dying to find a set of indicators to buy—that's the hardest role for the Bank and the IDB, but we are hungry for them and ready to buy them.

Colleen Norton, NA: Are the people here today cluster practitioners or a broader competitiveness group?