TECHNICAL COOPERATION ABSTRACT (TC-ABSTRACT)

REGIONAL

I. BACKGROUND

Country:	Regional
TC Name:	Enhancing Base of the Pyramid (BoP) Integration to Value Chains in Latin America and the Caribbean through Increased Broadband Adoption
TC Number:	RG-T2339
Team Leader/Members:	Maria Lourdes Gallardo (OMJ/OMJ), Team Leader; Agustina Calatayud (IFD/CTI); Felix Gonzalez (IFD/CTI); Monica Fernandez (OMJ/OMJ); Lina Salazar (OMJ/OMJ); Viviane Azevedo (OMJ/OMJ); Aurora Ruiz-Rua (INT/TIU); and Cecilia Bernedo (IFD/CTI).
TC Taxonomy:	Research and Dissemination (RD)
Date of TC Abstract authorization:	June, 2013
Donors providing funding:	To be determined (TBD)
Beneficiary:	**Regional**
Executing agency and contact name:	Inter-American Development Bank, OMJ (IDB)
IDB Funding Requested:	IDB: US$300,000
Local counterpart funding:	Local: US$ 0
	Total: US$300,000
Execution period:	18 months **Disbursement period:** 21 months
Required start date:	July, 2013
Types of consultants:	Firm and individual consultants
Prepared by Unit:	Division of Competitiveness, Technology and Innovation (IFD/CTI) and Opportunities for the Majority Sector (OMJ/OMJ)
Unit of Disbursement Responsibility:	IFD/CTI
TC included in Country Strategy:	N/A **TC included in CPD:** N/A
GCI-9 sector priority:	Mentioned under current sector strategies: "Support Competitive Global and Regional Integration", and "Institutions for Growth and Social Welfare".

II. OBJECTIVES AND JUSTIFICATION OF THIS TC

2.1 The adoption of broadband communication technologies is an important factor driving productivity and competitiveness in the private sector. McKinsey Global Institute showed that firms utilizing Internet had seen a 10 percent rise in

profitability in 2011.[1] A survey to business and technology leaders at 1,200 companies in six Latin American countries (Argentina, Brazil, Chile, Colombia, Costa Rica and Mexico) showed that broadband was seen as a key driver of improvements in their organizations, particularly with respect to business and process reengineering, better data processing and as a means of disseminating information and knowledge internally and across the value chain.[2]

2.2 Broadband penetration in LAC is lagging compared to the most advanced countries: while the European countries have an average of 30 installed fixed broadband lines for every 100 people, in LAC countries the average is about a third of that.[3] At the same time, the adoption of broadband in LAC is hindered by the access to devices and services, particularly their price. Importantly, although there is an increasing awareness in LAC countries on the key role that broadband plays for value chains, the lack or dispersion of empirical evidence severely impedes a clear understanding on the impact that reduced penetration and adoption of broadband can have on productivity and competitiveness of value chains. This poses an enormous challenge for LAC firms, to access and adopt broadband communication technologies that would enhance their ability to integrate to value chains, as well as the productivity and competitiveness of LAC value chains.

2.3 Broadband communication, in particular, has the power to articulate the Base of the Pyramid (BoP) to these value chains while having the potential of lowering transaction costs, improving the quality of commodity sourcing, among others. A variety of private sector-led broadband initiatives involving the BoP, mostly in Asia and Africa, have demonstrated profitability while providing social and economic returns along the value chain by filling information gaps. Such projects, directly linked to income-generating activities for this population have also demonstrated that the BoP is ready to pay for access to broadband. Despite this financial success, few initiatives of this type have been implemented in Latin America where leveraging broadband access to the BoP could have the potential to create efficient supply chains for business and social and economic impact while enhancing productivity and competitiveness.

2.4 Despite the surge in innovative supply chain business models that integrate broadband connectivity to the BoP at the global level, there are few evidence-based studies that report on the financial sustainability, economic and social impact. Such a study would contribute to understand the cost-benefit of these business models and could have implications for both the private and public sectors in terms of market opportunities and enabling business environment.

2.5 The general objective of this technical cooperation is to increase integration of BoP to value chains in LAC countries by raising awareness on the benefits from increasing the adoption of broadband communication technologies. The specific

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[1] McKinsey Global Institute (2011). Internet matters: The NET's sweeping impact on growth, jobs and prosperity. McKinsey & Company, Note 3.

[2] Inter-American Development Bank (2012). Bridging Gaps, Building Opportunities: Broadband as a Catalyst of Economic Growth and Social Progress in Latin American and the Caribbean.

[3] García-Zaballos, A. and López-Rivas, R. (2012) Governmental control on socio-economic impact of broadband in LAC countries. Inter-American Development Bank.

objectives are: (i) to examine the current state of the adoption of broadband-enabled services in value chains that integrate the BoP in LAC and benchmark against emblematic global case studies; (ii) to identify opportunities for BoP to integrate to value chains in LAC by filling in connectivity gaps through the adoption of broadband-enabled services; and (iii) to design policy recommendations in order to enhance adoption of broadband-enabled services for better integration of the BoP into value chains.

III. DESCRIPTION OF ACTIVITIES

3.1 The activities proposed in this project are divided into four components. Component 1 will identify best-practices for value chain analysis in the BoP. Component 2 will identify case studies for value chain analysis and map selected value chains. Component 3 will identify connectivity gaps and provide with recommendations to address them. Component 4 will provide recommendations for policy making in order to enhance integration of BoP to value chains. Finally, Component 5 will include activities of validation and dissemination of such recommendations.

3.2 **Component 1: Global benchmarking.** This component will conduct a global benchmarking and identification of best practices of business models that integrate the BoP into value chains. The analysis will pay special attention to best practices for information-sharing to enhance integration, collaboration, optimization, execution, speed and visibility across the value chain. The benchmarking will assess the role and performance of hard and soft infrastructure in place for information sharing and its impact on the efficiency of processes. Requirements of broadband infrastructure will be identified.

3.3 **Component 2: Selection of case studies and value chain mapping.** Value chains will be selected for study in at least three different LAC countries. The selection of will focus on firms engaging with the BoP as part of the value chain. Detailed rationale for the selection of value chains will be provided in the Terms of Reference. Nodes, processes and actors will be mapped for each value chain, indicating the characteristics of nodes –including access to and characteristics of broadband infrastructure- and actors, as well as time, cost and variability for each process (sourcing, production, transportation, distribution, etc.). Performance indicators will be identified based on the global benchmark. Mapping will make specific reference to processes where broadband-enabled technologies are or could be potentially used.

3.4 **Component 3: Identification of connectivity gaps and recommendations to address them.** Based on the global benchmark and the value chain mapping, connectivity gaps that limit integration of BoP to such value chains will be identified. Connectivity gaps could refer to both the need to implement broadband-enabled technologies to improve information sharing, and the need to improve broadband infrastructure to allow for broadband-enabled technologies to be implemented. Solutions to connectivity gaps –both in terms of hard and soft infrastructure- will be suggested, including estimation of CAPEX and OPEX.

3.5 **Component 4: Recommendations for policy making.** Taking into account the connectivity gaps and analysis pointed out in Components 1 through 3, a set of recommendations for policy making will be designed, with the purpose of enhancing the adoption of broadband-enabled services both in the private and public sectors, in order to foster integration of the BoP to value chains.

3.6 **Component 5: Validation and dissemination.** A number of workshops will be organized with the purpose to validate and disseminate the activities carried out under Components 1-4:

1. Workshop to validate results from studies conducted in Components 1, 2 and 3.
2. Workshop to validate the set of reforms to enhance the adoption of broadband-enabled services from Component 4.

A technical note (20 pages) and power point presentation will be produced including the details of the activities carried out under Components 1-5.

3.7 **Expected results:** (i) better understanding on the current state of the adoption of broadband-enabled services in LAC value chains, with special attention to the BoP; (ii) broadband-enabled services identified to increase integration of BoP to value chains; (iii) increased awareness on the benefits of the adoption of broadband for the BoP; (iv) a set of policy recommendations designed in order to enhance integration of the BoP to value chains through the adoption of broadband-enabled services.

Table: Indicative Budget

Activity/Component	Description	IDB/Fund Funding	Local Funding	Total Funding
Component 1	Global Benchmarking	50,000	-	50,000
Component 2	Selection of case studies and value chain mapping	80,000	-	800,000
Component 3	Identification of connectivity gaps and recommendations	100.000	-	100.000
Component 3	Recommendations for policy making	30,000	-	30,000
Component 4	Validation and dissemination	40,000	-	40,000
	Total	**300,000**		**300,000**

IV. EXECUTING AGENCY AND EXECUTING STRUCTURE

4.1 The executing agency will be the OMJ/OMJ Division, which will operate in coordination with IFD/CTI, public sector agencies, private sector and other stakeholders involved in this project.

V. PROJECT RISKS

5.1 A risk for the success of this project may arise may arise from the lack of ability to identify firms and population to benefit from this project, as well as the lack of access to data to analyze value chains. This risk is mitigated by the alliances and the deep knowledge that the Divisions member of this project have through their work with public and private sectors in LAC countries.

VI. ENVIRONMENTAL AND SOCIAL CLASSIFICATION

6.1 Due to the nature of this TC, there are no expected environmental and social risks associated with the implementation of the project. The operation was classified as Category "C", according to the Bank's classification toolkit (please see link: IDBDocs#37822997).