

## Draft TC ABSTRACT

### I. Basic project data

▪ Country/Region:	Regional
▪ TC Name:	Using Broadband to Enhance Financial Inclusion
▪ TC Number:	RG-T2442
▪ Team Leader/Members:	Frank Nieder (IFD/CMF); Fernando de Olloqui (IFD/CMF); Gabriela Andrade (IFD/CMF); Lorena Cano: Fermin Vivanco (MIF/MSM); and Stephanie Suber (IFD/CMF).
▪ Indicate if: Operational Support, Client Support, or Research & Dissemination.	Client Support
▪ If Operational Support TC, give number and name of Operation Supported by the TC:	
▪ Reference to Request: (IDB docs #)	N.A. IDB executed project
▪ Date of TC Abstract:	
▪ Beneficiary (countries or entities which are the recipient of the technical assistance):	Private Sector Partnerships in three countries to be selected.
▪ Executing Agency and contact name	IDB
▪ IDB Funding Requested:	US\$275,000
▪ Local counterpart funding, if any:	
▪ Disbursement period (which includes execution period):	24 months
▪ Required start date:	June 30, 2014
▪ Types of consultants	Firms and Individuals
▪ Prepared by Unit:	IFD/CMF
▪ Unit of Disbursement Responsibility:	IFD/CMF
▪ Included in Country Strategy (y/n);	No
▪ TC included in CPD (y/n):	No (Regional)
▪ GCI-9 Sector Priority:	Growth and Social Equity

### II. Objective and Justification

2.1 **Objective:** To enhance financial inclusion by promoting the development and use of web-based systems and other mechanisms to deliver financial services via broadband to lower income households and smaller firms.

2.2 **Justification.** Three of the most important factors that limit financial inclusion in the LAC region are: (i) the high operation costs of providing financial services to lower income and smaller firms due to the general lack of economies of scale for financial service transaction; (ii) the high transaction costs for these households and firms due to the difficulty of getting to the points of service delivery; and (iii) the general limited competition in these market segments due to the current limited profitability of these sector resulting from the relatively small size of these markets and the high costs to deliver services.

2.3 Using broadband to deliver services can help to address all three of these factors. First, broadband can deepen the range of services that can be electronically provided. Electronic provision of services is much lower cost than other modalities, which involve staff or the facilities of the service provider. In addition, information on broadband use can be added to

other sources of information on clients, such as cell phone use and payment histories to develop more effective and accurate credit scoring systems, even for those without credit histories. This could dramatically lower the cost of credit analysis, a major operating cost for small loans, and also allow financial service providers to align pricing better with the actual risk of the clients.

2.4 Second, as broadband is available 24/7 and the service accessible geographically for the vast majority of the urban populations, the transaction costs for users will be reduced, especially if combined with reforms to adjust documentary requirements.

2.5 Third the provision of financial services by broadband should also enhance competition by making the potential market larger and more profitable, facilitating the entry of new types of financial service providers and the establishment of mechanisms which provide clients with easier and quicker access to the pricing and scope of available services, including credit.

2.6 Until recently the potential to use broadband for the delivery of financial services to these lower income households and small firms was not feasible because they had limited access these households and smaller firms. However, the prices for smartphones are falling dramatically. For example, it is reported that smartphones can be purchased for US\$45 in several countries, when the price for the lowest cost model was over US\$100 only 8 months earlier. Mobile phone operators are offering web access on a pre-paid basis making internet access affordable as well. With these changes broadband will be accessible to the majority households and firms in most countries in the region. With this dramatically expanded access to broadband via mobile, there is potential to dramatically expand access to financial services using broadband

2.7 **GCI-9 Priorities.** By expanding lower income household and smaller firms access to financial services the project supports the Growth and Social Equity GCI-9 Priority.

### **III. Description of activities and outputs.**

3.1 The project would have three components, in addition to its administration.

3.2 **Component 1. Generating Awareness of the Potential of Broadband for Financial Service Delivery.** This component would include two activities designed to help create greater understanding of the how broadband can be used to expand access to financial services for lower income households and smaller firms, its potential, as well as the key factors for success and obstacles. The first would be the preparation of a background report on these issues drawing on lessons learned from experiences from both developed and emerging economies and applying them to the enabling environment in the LAC region. The study would analyze both the effectiveness of systems that use broadband to enhance financial inclusions as well as the public sector policy and regulatory framework to promote these systems. The second would be the organization of a regional conference for policy makers and potential service providers. This conference is expected to be organized jointly

with regional business and regulatory organizations, and possibly web service providers and search engine providers. In addition to generating a greater understanding and awareness by key decisions makers, this component would also help to generate demand for the subsequent components of the program.

**3.3 Component 2. Supporting the development and implementation of private/public sector initiatives.** This component would provide assistance to develop and implement public private sector initiatives in two countries aimed at promoting the development and launching of broadband based systems to deliver financial services. It is expected that each of the supported initiatives would focus on one of the mechanisms by which broadband enhances financial inclusion, ie (i) lowering the costs and efficiency of providing services; (ii) enhancing competition; and (iii) providing a new source of data on potential clients. This aspect would broaden lessons learned and the demonstration effects of the program.

3.4 The activities would include: (i) preparation of a study for each country on the proposed technology/application, its potential and feasibility in the country, and the recommended actions by the public sector, in terms of policies and regulatory framework, and private sector in terms of the development and implementation of of the broadband system.; (ii) a workshop of the key actors to explain the recommendations, to help the actors develop an actions plan and formalize the public/private sector initiative; and (iii) technical assistance for the implementation of some of key the measures identified, for example on regulatory modifications by the public sector, and the coordination of different private sector actors for the launching of a program/application.

**3.5 Component 3. Dissemination.** To disseminate the lessons learned and results from the different initiatives, a second regional conference would be organized, where participants in the public/private sector initiatives would share their experiences and analysis of the reasons for their success and difficulties.

#### IV. Budget

##### Indicative Budget

Activity/Component	Description	IDB/Fund Funding	Counterpart Funding	Total Funding
<b>Component 1: Generating Awareness and Dissemination of Results</b>		<b>40,000</b>		<b>40,000</b>
(i)Background Study	Study outlining potential of broadband to expand access to financial services and the key policy issues to facilitate its use.	30,000		40,000
(ii) Regional Conference I.	Conference for policy makers and financial service providers on how broadband can be used to expand financial inclusion.	10,000		10,000
<b>Component 2: Supporting the development and implementation of private/public sector initiatives</b>		<b>225,000</b>		<b>225,000</b>
Diagnostic Reports	Preparation of diagnostic and recommendations report in 3 countries.	65,000		65,000
Workshops to develop action plan for public/private sector	A workshop in each country for public and private sector actors	10,000		10,000

initiative				
Support for some of the initial measures in plan.	Technical assistance to public and/or private sector participants.	150,000		150,000
<b>Component 3. Dissemination</b>		<b>10,000</b>		<b>10,000</b>
Regional Conference to Disseminate Lessons Learned	Conference on results from program and other experiences in the region.	10,000		10,000
<b>TOTAL</b>		<b>275,000</b>		<b>275,000</b>

## V. Executing agency and execution structure

5.1 The IDB will be the executing agency for the project, with the IFD/CMF division responsible for its implementation and supervision. For component two, countries will apply for participation with the joint application of a public entity responsible or involved in promoting financial inclusion, and a service provider business association, such as an Association of Banks, Mobile Network Operators or Credit Bureaus, or by a group of independent businesses already working together on an application or mechanism. During the subsequent phase of preparation of the program, the possibility of participation, including co-financing from other institutions, such as the Gates Foundation and the Master Card foundation will be explored.

## VI. Project Risks and Issues.

6.1 **Project Demand.** Given that the widespread use of broadband by lower income households is only developing in the region, and the means of how to use broadband to facilitate access and use of financial services to this market are not well understood, it could take time and effort to motivate country beneficiaries to participate in the program. To ensure effective demand several measures will be taken, in addition to the initial component of the program. They will include direct contacts of the project team with key actors in countries where market developments are most propitious, contacts with other organizations involved in this area such as the Gates Foundation and CGAP, and the dissemination of information of the program in different financial inclusion fora of the IDB.

## VII. Environmental and Social Classification

7.1 Based on the Environmental and Social Safeguard Filter, the proposed technical assistance has been classified as category C. No potential negative environmental and/or social impacts of the TC were identified and therefore no mitigation strategy is required to address any impact. See [Safeguard Policy Filter Report \(SPF\)](#) and [Safeguard Screening Form \(SSF\)](#).