TC ABSTRACT – RG-2467

Enhancing Base of the Pyramid (BoP) Integration to Value Chains in Latin-America and the Caribbean through Increased Broadband Adoption: Phase II

I. Basic project data

▪ Country/Region:	Regional	
▪ TC Name:	Enhancing Base of the Pyramid (BoP) Integration to Value Chains in Latin-America and the Caribbean through Increased Broadband Adoption: Phase II	
▪ TC Number:	RG-T2467	
▪ Team Leader/Members:	Maria Lourdes Gallardo (OMJ/OMJ), Team Leader; Monica Fernandez (OMJ/OMJ); Felix Gonzalez (IFD/CTI); and Ana Silva (OMJ/OMJ)	
▪ TC Taxonomy:	Research & Dissemination (RD)	
▪ Date of TC Abstract:	March 6, 2014	
▪ Beneficiary:	Countries in Latin America and the Caribbean	
▪ Executing Agency and contact name:	Inter-American Development Bank, OMJ (IDB)	
▪ IDB Funding Requested:	IDB:	USD 300,000
▪ Local counterpart funding, if any:	Local:	USD 50,000
	TOTAL:	**USD 350,000**
▪ Disbursement period (which includes execution period):	Disbursement period: Execution period:	30 months 24 months
▪ Required start date:	June 1, 2014	
▪ Types of consultants:	Firm and individual consultants	
▪ Prepared by Unit:	Opportunities for the Majority Sector (OMJ/OMJ)	
▪ Unit of Disbursement Responsibility:	OMJ/OMJ	
▪ Included in Country Strategy (y/n); ▪ TC included in CPD (y/n):	Mexico: (iv) Business competitiveness, (viii) rural development N/A	
▪ GCI-9 Sector Priority:	Reducing poverty and inequality	

II. Objective and Justification:

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. 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 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. 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 case studies and evidence-based studies that report on the financial sustainability, economic and social impact. Such studies would contribute to understand the effectiveness 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. This TC will build on the outputs of TC RG-2339. The specific objectives are: (i) based on a series of global case studies, replicate in LAC business models that have effectively integrated or served the BoP throughout their value chains leveraging the adoption of broadband-enabled services; (ii) understand the social and economic impact of broadband adoption on specific value-chains that incorporate or serve the BoP (ii) design policy recommendations in order to enhance adoption of broadband-enabled services for better integration of the BoP into value chains.

2.6 Implementation of TC RG-2339. Execution of Component 1 will be completed on April 2014. The output of this component is a report highlighting eight (8) case studies (6 from regions other than LAC) of business models that are effectively integrating or serving the BoP population in education, health, financial services and agriculture. Interest has been expressed by internal and external stakeholders to explore the replication of such business models in the region. Execution of Components 2 and 3 is underway; the Mexican firm, Mi Tienda, was selected in November 2013 as one of the two value chains that would be studied via the impact evaluations. Mi Tienda's core business is the distribution of basic goods to BoP-owned small stores (*tienditas)* in rural areas that also serve BoP households. Mi Tienda's distribution system allows for small store owners to supply their stores with a wider range of goods and at a more accessible price, which benefits their business as well as their clients. Mi Tienda, in partnership with the firm Barared, is looking to deploy broadband technology, hardware and tablets to the small stores so that BoP customers in rural areas can have access to other services such as banking, payment of services, cell-phone top-ups, among other. The impact evaluation would seek to measure the financial returns of the investment to Mi Tienda, Barared and the small stores as well as the social returns to the owners of the stores and the BoP population that they serve. After conducting an RFP, a firm was selected to conduct a diagnostic of the stores before the deployment of broadband, identify the social and financial indicators to be measured for the study, and gather baseline data.

2.7 During QRR for RG-T2339 (Phase I), members of the committee expressed a preference for conducting rigorous impact evaluations of the adoption on broadband on BoP business models over conducting cost benefit analyses. Experimental and/or semi-experimental impact evaluations are costly. The selected proposal for the Mi Tienda evaluation has a total cost of $290,000, hence Phase I will only be able to cover the costs associated to the diagnostic and baseline. In order to fully execute two impact evaluations and expand on Component I, the team will require additional resources from those obtained through RG-2339. A second impact evaluation has been postponed at this time due to its costs.

2.8 A second technical cooperation will allow to continue the rigorous study that has begun under RG-T2339 to study the impact of placing broadband enabled technologies in small-stores in rural Mexico, and carry out a second study, which will be used as part of a general study which will be presented at III BASE Forum 2015 to companies that can make use of the knowledge of the impact and lessons learned from these business models.

III. Budget Description of activities and outputs

3.1 The activities proposed are divided into 4 components. The firstThe second component will evaluate the results obtained during the study of "Mi Tienda," related to RG-T2339. The third component will be a study of second case in a different sector, using a similar methodology from "Mi Tienda." The third component will include activities of validation and dissemination. And component 4, will related to the activities and costs for managing the project.

3.2 ***Component 1: Business Development Workshops.*** In order to build from the lessons learned of the global case studies, private sector companies will be invited to explore the possibility of replicating some of the business models from other regions. This component would also support some preliminary business modeling. This exercises might entail the engagement with public sector actors in order to explore how best to address some policy or regulatory hurdles that limit the adoption of broadband to increase access of goods and services for the BoP.

3.3 ***Component 2: Ex-post evaluation of "Mi Tienda" broadband project.*** This component will build on the study that began with RG-T2339, which is to evaluate the impact of broadband adoption by "Mi Tienda", both on its business model (financial) as well as on its target population (social impact on tiendas and final clients).The final report will include a set of recommendations for policy making.

3.4 ***Component 3: Validation and Dissemination.***

1. A number of workshops will be organized with the purpose to validate and disseminate the results carried out under Components 1 and 2.
2. A technical note (20 pages) and power point presentation will be produced including the details of the activities carried out under Components 1 and 2.
3. The results will be presented at the BASE III Forum in June 2015.

3.5 ***Component 4: Project Management.*** This is a transversal component that will support with the costs of the resources required for the management of the project. These costs are related with human resources and travel.

3.6 ***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.

IV. Budget

Indicative Budget

[Additional level of detail required in budget will be elaborated to provide good guidance]

Activity/Component	Description	IDB/Fund Funding	Counterpart Funding	Total Funding
Component 1	Business Development Workshops	100,000	50,000	150,000
Component 2	Ex-post evaluation of "Mi Tienda" broadband project.	140,000	-	140,000
Component 3	Validation & Dissemination	30,000	-	30,000
Component 4	Project Management	30,000	-	30,000
TOTAL		300,000	50,000	350,000

V. Executing agency and execution structure

5.1 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.

VI. Project Risks and issues

6.1 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.

VII. Environmental and Social Classification

7.1 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 Environmental Category "C" and Disaster Risk Category "Low", according to the Bank's classification toolkit (please see: IDBDocs#38659494, IDBDocs#38659495).