

Plan of Operations

Empowering the Economic Base of the Pyramid

Regional

I. General Information

Project Number:	RG-T1227	
Project Team:	Daniel Shepherd (MIF), Team Leader; Rafael Villa (INT); and Diego Buchara (LEG/OPR).	
Executing Agency:	Inter-American Development Bank.	
Beneficiaries:	Borrowing member countries of the Bank.	
Amount and Source of Funding:	IDB (Markets and Governance for Poverty Reduction Trust Fund):	US\$150,000
	Local:	US\$ 0
	Total	US\$150,000
Time Frame:	From the approval date:	
	Execution period:	4 months
	Disbursement period:	7 months
Special Contractual Conditions:	None.	
Social and Environmental Review:	The project document was sent to SDS/ENV for information and comments. Its main recommendations were taken into consideration in the document (see paragraph 8.1).	

II. BACKGROUND AND JUSTIFICATION

A. The economic dilemma of Latin America and the Caribbean

- 2.1 It is one of the profound lessons of economic history that democracy and free markets together provide the best foundation for both economic prosperity and a vibrant civil society. These systems reinforce each other when markets provide opportunity for the vast majority of citizens to participate effectively in economic life as both producers and consumers. When markets empower the majority economically, societies can flourish and compete successfully in the global marketplace.
- 2.2 It is also true that markets do not always reach and empower the majority. Bad policies and weak institutions too often limit vibrant market activity to only those at the top of the economic pyramid, excluding a country's majority from full participation in economic life. Keeping the majority on the periphery of economic

opportunity has a negative impact on economic growth, since it reduces domestic market potential and squanders the skills, energy and ambition of the population. It is also damaging to civil and political life, as it breeds a sense of alienation and resentment on the part of the majority.

- 2.3 Over the last quarter century, the Latin American and Caribbean economy has been characterized by extreme volatility, largely resulting from continued dependence on external markets and commodities. The results of this pattern of boom/bust cycles can be seen in the Region's statistics on poverty and income. Compared to 1980, the percentage of people living below the poverty line today is significantly higher and inequality has grown.
- 2.4 But even if the period of uninterrupted growth from 1960-1980 were included, there would still be no improvement in poverty or inequality, despite a 50% real growth in GDP per capita over the past 45 years. This lack of broad-based growth manifests itself in social and economic exclusion. Typically, exclusion refers to minority groups that are marginalized due to race, ethnicity, or gender. Economic exclusion for the Region, however, applies to the majority in a number of ways, all with devastating consequences: high inequality, informal economies and inadequate access to basic services.
- 2.5 Workers are forced to turn to the informal economy where conditions are precarious and income from jobs is low – often just enough to survive. The divisions between the formal and informal economies further segment society and deter the poor from fully participating in the development process. Moreover, informality places significant constraints on a business's potential growth, reducing access to financial and other inputs, including public services. It also limits the kinds of contracts and investments the firm can make. Being unemployed or having an informal job excludes workers from basic services and benefits such as social security, further marginalizing the majority and placing additional strain on already stressed governmental assistance programs. For many countries, underemployment is actually a more pervasive challenge than unemployment.
- 2.6 Capital formation flows toward a handful of industries and is highly concentrated in geographically limited "hot zones," while the rest of the economy stagnates. Poor road networks, lack of reliable energy supplies and inadequate information networks impact the ability of Region's majority to develop economic opportunities. Rural areas, in particular, are crippled by the lack of adequate infrastructure. In sum, the population at the base of the economic pyramid has limited access to what they need to earn a decent livelihood for themselves and their families. It is a frustrating reflection of the region's economy that so many young people feel compelled to go abroad in order to find work and send remittances back home. Indeed, for too many countries, their leading export is young workers.

B. The economic market at the base of the pyramid (BOP)

- 2.7 The economic market at the base of the pyramid (BOP) – approximately 350 million people in Latin America and the Caribbean with an annual household income of less than US\$3,000 (purchasing power parity) – represents the vast majority of the population in the Region. A significant, yet untapped market potential exists within this segment of the economy. This is not, however, about providing the same, existing products and services that have been developed for the top of the economic pyramid and simply marketed to the poor, but rather a new business approach that seeks to develop new products or services adapted to the needs of the BOP at an affordable price.¹ The creation of inclusive, mutually beneficial business processes through which the private sector, civil society, government and other actors build economic, social and environmental value can contribute significantly to the sustainable development of the region.
- 2.8 Because of the potential for increased revenues from BOP market opportunities – stemming from the design, production, and commercialization of new products – companies can increase revenues by entering this market. To effectively respond to the special needs of the BOP market, however, these companies will have to reformulate their business models and marketing strategies. The businesses that successfully make “the great leap downward” will be those that are able to reinvent their products and services. Their rewards will be access to a large, profitable market as well as the opportunity to develop technologies that will move “upstream” in the classic pattern of breakthrough technologies. Therefore, the BOP concept is being seen by an increasing number of companies as a “win-win” situation, by gaining access to a market with enormous potential for growth.
- 2.9 Since conventional approaches of doing business do not function in this new market segment, companies must utilize innovative mechanisms to target these opportunities. Similarly, technology is a crucial ally in this effort, as it can permit companies to reduce costs through leapfrogging to less capital intensive and more efficient ways of operating. Therefore, innovation and technology are essential components to include in order to focus on the economic base of the pyramid, as well as crucial for competitiveness and broad-based economic growth.

C. New IDB Initiative

- 2.10 The IDB has an urgent challenge to confront more forcefully and effectively the historic lack of broad-based economic growth, which is needed to generate shared societal benefits in Latin American and Caribbean countries, for which it is creating an Initiative centered on the base of the pyramid concept. Six areas have been identified for the launching of this Initiative: citizen identification, financial democracy, employment generation and entrepreneurship, basic infrastructure services, information and communication technology, and housing. These areas

¹ Prahalad, C.K. 2005. *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*. Wharton School Publishing.

are the focus of this new IDB initiative and the international conference to be held in Washington, DC in June 2006 entitled, *Building Opportunity for the Majority*.

- 2.11 These areas have been selected given their potential to directly create inclusive growth and generate measurable results over the next five years (2007-2011). Focus on these priorities will serve as an organizing principle for the Bank's activities in these areas. But, it must be noted that these priorities constitute only the first stage of this Initiative, and will be followed by many others in the coming years. In this regard, the selected focus areas represent only a portion of the many sectors and programs needed to address inequality and poverty in the Region, such as health and education reforms, modernization of the state, citizen security initiatives and rural development.

D. A new approach

- 2.12 This TC intends to analyze the opportunities for targeting the BOP in the region as a means to increase interest among the private sector. Such an approach requires changing the business as usual model that companies use to identify new products and services so that they first consider the needs of the client and their ability to pay a certain price. Based on the affordable price, the companies must then contemplate how to engineer a quality product or service so that it responds to this need. An important piece of this new business model is to find ways to include the local micro and small enterprises into these market opportunities, as they are thought to have a distinct advantage in offering new services or products to this segment through innovation and a new business model. At the core of this BOP approach is empowering the low-income households by demonstrating their economic importance in society.
- 2.13 The results of this TC are intended to be a key input into this broader IDB initiative focused on how to improve access and opportunities for the vast majority of the people in the region that live at the base of the economic pyramid.

E. Coordination with Bank's Country and Sector Strategies

- 2.14 This TC is consistent with the IDB Private Sector strategy, which recommends that the Bank to identify different mechanisms for engaging the private sector in order to increase employment opportunities and economic growth in the countries of the region.
- 2.15 This technical cooperation project focuses on a new model for poverty alleviation by empowering the poor and including them as an important part of the global economy, rather than being ignored. In addition to addressing the needs of those at the base of the pyramid through offering a broad range of suitable products and services at lower prices, the private sector can help alleviate poverty by contributing to economic growth, job creation and increasing income for those in

the BOP.² This approach is intended to be at the center of this new IDB initiative to be launched in June 2006 (see paragraphs 2.9 and 2.10).

III. OBJECTIVES AND DESCRIPTION OF THE PROJECT

F. Objectives

- 3.1 The general objective of this technical cooperation project is to increase awareness and interest among the private sector to engage in the BOP market across the Latin American and Caribbean region, as both producers and consumers. The specific objectives of this technical cooperation are: (i) to analyze and report on the purchasing power of the BOP across most of the countries in the region; (ii) provide Sectoral breakdown of the BOP purchasing power in multiple countries in the region and across multiple sectors including financial services, basic infrastructure (water, energy and transportation), information and communication technologies, housing and possibly healthcare; (iii) developing a BOP penalty or poverty penalty to demonstrate that goods and services tend to be more expensive for the poor; and (iv) participate and possibly present in an IDB-sponsored international conference to disseminate the results of study.

G. Components

- 3.2 **Provide overview of BOP opportunities in the region.** The consultant should undertake region-wide assessment of the BOP opportunities across the different countries in the region. This assessment should include a description of the different efforts and initiatives in each country intended to support BOP related actions. This assessment should also highlight some examples of BOP products and services that have been or are being developed in the countries in the region. These examples should be structured as business cases.
- 3.3 **Analyze and report on the purchasing power of the BOP across the different countries in the region.** Analyze the potential opportunity for the private sector to enter this BOP segment in the countries in the region. As a part of this analysis, the consultant should elaborate a map indicating the purchasing power of the BOP segment of the economy for each country. This map should help articulate the tremendous market opportunity that the BOP represents. The income/consumption data should be obtained from household surveys (as recent as possible) and should be portrayed in both purchasing power parity (PPP) terms as well as straight US\$ figures (taking into consideration an appropriate inflator country by country). A specific income/consumption amount should be determined as the cut-off number for the majority and then applied across the countries in the region as a determinant of the target segment.

² Commission on the Private Sector and Development. 2004. *Unleashing Entrepreneurship: Making Business Work for the Poor*. Report to the Secretary General of the United Nations. United Nations Development Programme.

- 3.4 **Analyze and highlight the BOP purchasing power across key sectors.** As a means to increase interest of private companies to think more strategically about the BOP, the consultant should analyze the BOP purchasing power across multiple sectors including financial services, basic infrastructure (water, energy), information and communication technologies, housing and possibly healthcare. This Sectoral analysis should be undertaken for at least seven countries.
- 3.5 **Develop a BOP penalty.** Recognizing that low-income people tend to pay more for the same goods and services, this BOP or poverty penalty manifests itself in multiple forms such as lack of access, higher prices and/or poor quality of products and services. The consultant should develop a methodology and indicative description of how this poverty penalty is represented in real terms in a few sectors. This methodology should encompass the identification of higher prices to poorer households, instances of rationing and non-monetary obstacles to the access of goods and services that are available within the same country.
- 3.6 **Materials for an IDB-sponsored conference.** In order to launch this report and increase attention to this innovative area of BOP, the consultant prepare materials for an international conference to take place in the IDB headquarters in Washington, DC. Participants in this event should include the private sector, civil society, donor organization and other development agencies. The results of this consultancy will be a key element of this IDB conference along with a map of the locked assets in countries in the region (being prepared by ILD of Peru) and an economic atlas of the majority being prepared by INT, SDS and RES.

H. Expected Results

- 3.7 The expected deliverables are:
- a. Document of a region-wide assessment of the BOP opportunities;
 - b. A map and an analytical report of the purchasing power of the BOP segment of the economy for each country and the region as a whole; and
 - c. Document of the methodology for a BOP penalty.

IV. COST AND FINANCING

I. Summary cost table

- 4.1 The total cost of the project will be US\$150,000. The contribution of the Bank will be US\$150,000, chargeable to the Markets and Governance for Poverty Reduction Trust Fund. The contribution will finance consultant services in order to undertake the activities described above (see Section III.B).
- 4.2 The following table provides a breakdown of expenditures and sources of financing:

**Table of Costs
(In US\$)**

Categories	Trust Fund	Total
1. Honoraria	114,000	114,000
Senior project consultant (50 days @US\$600)	30,000	30,000
Three junior consultants (150 days @US\$400)	60,000	60,000
Technical consultant (layout and design) (40 days @ US\$600)	24,000	24,000
2. Publications	36,000	36,000
Editing	11,000	11,000
Printing (maps, diagrams and report)	25,000	25,000
TOTAL	150,000	150,000

V. EXECUTING ORGAN AND MECHANISM

J. Executing Organ

- 5.1 The Bank will conduct the execution of this project. Basic and disbursement responsibility (UDR) will be held by INT/RTC. MIF will have the technical responsibility and responsibility for consultant selection and monitoring their outputs.
- 5.2 **Modality of execution.** In accordance to T/C Funds norms, the Bank will directly execute this operation, select and hire the consulting firm required, and undertake the disbursement of the resources.
- 5.3 **Services required:** In order to undertake the activities described above, World Resources Institute was identified as the consulting firm to deliver the products. World Resources Institute (WRI) was selected to undertake the project following the single source selection (SSS) procedure as permitted by Bank policies and procedures. The project team believes this justified as WRI has experience of exceptional worth for the assignment including past research related to the topic, organization of three international conferences and access to key leaders and thinkers in this area. WRI has commenced work in good faith based on their long-standing relationship with the Bank Group and with the expectation of signing a contract once this TC is approved. Therefore, upon approval of this TC, the project team recommends formalizing the contract with them.
- 5.4 WRI will provide the following core group of consultants: a senior project coordinator, with ample experience in base of the pyramid concepts and experience in the region; three junior consultants for data collection and analysis; and a technical consultant for layout and design assistance.

K. Execution and disbursement periods

- 5.5 The execution and disbursement time frames are estimated at 4 and 7 months as of the date of approval, respectively.

VI. MONITORING AND EVALUATION

- 6.1 A project completion report will be prepared within 30 days of the termination of the period of execution. The team leader will conduct a meeting with the team members and specialists of the Regional Departments in order to evaluate the level of fulfillment of the objectives, the achievements in the proposed goals and the recommendations of policy that arise from the operation. Minutes will be prepared after the meeting.

VII. BENEFITS AND RISKS

- 7.1 The main benefit of this TC is to demonstrate the potential market opportunities that can be found in the economic base of the pyramid. By attracting the private sector to these opportunities, it is expected that this would lead to increase employment opportunities and small business development among those living in the BOP. In addition, the BOP penalty is intended to demonstrate to the public sector that unequal access to basic services and products is hampering the ability of those in the BOP to improve their situation and quality of life.

VIII. ENVIRONMENTAL AND SOCIAL REVIEW

- 8.1 The project was reviewed by SDS/ENV on May 15, 2006. It is considered that due to their nature, the studies and other products financed in the proposed operation will not have environmental impacts or negative social impacts. Moreover, the development of tools and methodologies for empowering the economic base of the pyramid will produce positive social impacts.

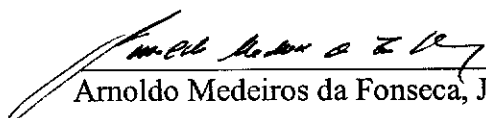
IX. RECOMMENDATION:

- 9.1 Daniel Shepherd (MIF), designated team leader for the project of the reference recommends the approval of this operation and the use of resources from the Markets and Governance for Poverty Reduction Trust Fund totaling up to one hundred and fifty thousand dollars of the United States of America (US\$150,000) in order to finance the corresponding project.

X. CERTIFICATION

- 10.1 I certify that the Technical Review Committee of the Markets and Governance for Poverty Reduction Trust Fund allocated resources from the trust fund on 12 May

2006, after reviewing the merits of the proposal and eligibility criteria as provided by the Fund Operational Guidelines. In addition, I certify that resources from the Markets and Governance for Poverty Reduction Trust Fund are available for up to US\$150,000 to finance the activities described and budgeted in this TC Brief. The Bank will commit and disburse project resources in US dollars only. The same currency shall be used to stipulate remuneration and payments to consultants, except that local consultants working in their own borrowing member country shall have their remuneration defined and paid in the currency of that country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this TC Brief. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.


 Arnaldo Medeiros da Fonseca, Jr, Chief, RE2/TEC

June 2, 2006
 Date

XI. APPROVAL

- 11.1 In accordance with the Document CC-5290, approved by the Coordination Committee on August 2, 1995, and the corresponding memorandum of simplification ("Simplification of Procedures and Delegation of Authority to Approve Non-Reimbursable Technical Cooperation"), dated September 12, 1995, I submit for your approval the above-mentioned operation for the amount of US\$150,000, to be charged to the Markets and Governance for Poverty Reduction Trust Fund

Concur:


 Laura Bocalandro, Chief INT/RTC

6/5/06
 Date

Approved: 
 Nohra Rey de Marulanda, Manager INT

6/5/06
 Date

Empowering the Economic Base of the Pyramid

TERMS OF REFERENCE (RG-T1227)

I. BACKGROUND

- 1.1 The economic market at the base of the pyramid (BOP) – approximately 350 million people in Latin America and the Caribbean with an annual household income of less than US\$2,500 – represents the vast majority of the population in the Region. A significant, yet untapped market potential exists within this segment of the economy. This is not, however, about providing the same, existing products and services that have been developed for the top of the economic pyramid and simply marketed to the poor, but rather a new business approach that seeks to develop new products or services adapted to the needs of the BOP at an affordable price. The creation of inclusive, mutually beneficial business processes through which the private sector, civil society, government and other actors build economic, social and environmental value can contribute significantly to the sustainable development of the region.
- 1.2 Because of the potential for increased revenues from BOP market opportunities – stemming from the design, production, and commercialization of new products – companies can increase revenues by entering this market. To effectively respond to the special needs of the BOP market, however, these companies will have to reformulate their business models and marketing strategies. The businesses that successfully make “the great leap downward” will be those that are able to reinvent their products and services. Their rewards will be access to a large, profitable market as well as the opportunity to develop technologies that will move “upstream” in the classic pattern of breakthrough technologies. Therefore, the BOP concept is being seen by an increasing number of companies as a “win-win” situation, by gaining access to a market with enormous potential for growth.
- 1.3 This consultancy intends to analyze the opportunities for targeting the BOP in the region as a means to increase interest among the private sector as to this yet unrealized market. Such an approach requires changing the business as usual model that companies use to identify new products and services so that they first consider the needs of the client and their ability to pay a certain price. Based on the affordable price, the companies must then contemplate how to engineer a quality product or service so that it responds to this need. An important piece of this new business model is to find ways to include the local micro and small enterprises into these market opportunities, as they are thought to have a distinct advantage in offering new services or products to this segment through innovation and a new business model. At the core of this BOP approach is empowering the low-income households by demonstrating their economic importance in society.

II. CONSULTANCY OBJECTIVE

- 2.1 The objectives of this consultancy are: (i) to provide an overview of BOP efforts and initiatives in the region; (ii) to analyze and report on the purchasing power of the BOP across the different countries in the region; and (iii) compile a series of BOP cases from the region. The result of this study is to provide the necessary background details and assess the overall opportunity for private sector opportunities in the BOP in the region. Through such information, it is expected to spark increased interest in BOP markets in the region, engaging the private sector and empowering the poor.

III. CHARACTERISTICS OF THE CONSULTANCY

- 3.1 *Duration and type of consultancy:* The consultant will be offered a "lump-sum" contract over a period not to exceed five months.
- 3.2 *Place of work:* Consultant's country of residence, though travel to the Region may be necessary to collect the necessary information.
- 3.3 *Consulting team:* In order to undertake the activities described above, it is expected that the following core group of consultants would be needed: a senior project coordinator, with ample experience in base of the pyramid concepts and experience in the region; three junior consultants for data collection and analysis; and a technical consultant for layout and design assistance.
- 3.4 *Qualifications and experience:* The senior project coordinator should possess the following qualifications: (i) Master's degree in Business Administration, Economics or equivalent; (ii) at least five (5) years or more of professional experience working in private sector development; (iii) at least two previous consultancy assignments working with large companies interested in base of the pyramid (BOP); and (iv) strong analytical and communication skills.
- 3.5 *Languages:* Fluency in English and working knowledge of Spanish and Portuguese preferred.

IV. ACTIVITIES

- 4.1 General tasks to be performed by the consultant with the assistance of the executing agency are the following:
- 4.2 Provide overview of BOP opportunities in the region. The consultant should undertake region-wide assessment of the BOP opportunities across the different countries in the region. This assessment should include a description of the different efforts and initiatives in each country intended to support BOP related actions. This assessment should also highlight some examples of BOP products

and services that have been or are being developed in the countries in the region. These examples should be structured as business cases.

- 4.3 Analyze and report on the purchasing power of the BOP across the different countries in the region. Analyze the potential opportunity for the private sector to enter this BOP segment in the countries in the region. As a part of this analysis, the consultant should elaborate a map indicating the purchasing power of the BOP segment of the economy for each country. This map should help articulate the tremendous market opportunity that the BOP represents. The income/consumption data should be obtained from household surveys (as recent as possible) and should be portrayed in both purchasing power parity (PPP) terms as well as straight US\$ figures (taking into consideration an appropriate inflator country by country). A specific income/consumption amount should be determined as the cut-off number for the majority and then applied across the countries in the region as a determinant of the target segment.
- 4.4 Analyze and highlight the BOP purchasing power across key sectors. As a means to increase interest of private companies to think more strategically about the BOP, the consultant should analyze the BOP purchasing power across multiple sectors including financial services, basic infrastructure (water, energy), information and communication technologies, housing and possibly healthcare. This Sectoral analysis should be undertaken for at least seven countries.
- 4.5 Develop a BOP penalty. Recognizing that low-income people tend to pay more for the same goods and services, this BOP or poverty penalty manifests itself in multiple forms such as lack of access, higher prices and/or poor quality of products and services. The consultant should develop a methodology and indicative description of how this poverty penalty is represented in real terms in a few sectors. This methodology should encompass the identification of higher prices to poorer households, instances of rationing and non-monetary obstacles to the access of goods and services that are available within the same country.
- 4.6 Participate in an IDB-sponsored conference. In order to launch this report and increase attention to this innovative area of BOP, the consultant should participate in an international conference to take place in the IDB headquarters in Washington, DC. Participants in this event should include the private sector, civil society, donor organization and other development agencies. The results of this consultancy will be a key element of this IDB conference along with a map of the locked assets in countries in the region (being prepared by ILD of Peru) and an economic atlas of the majority being prepared by INT, SDS and RES.

V. REPORTS

- 5.1 The consultant will be responsible for the preparation of a report that includes the various items identified in Section IV above. An important piece of this report is a map indicating the purchasing power across the different countries. The initial draft of the map should be completed by no later than May 25, 2006, and

submitted to the MIF/Bank Project Team for review and comments. The consultant will have ten (10) working days to incorporate the comments and the final version of the map should be sent to the MIF/Bank. The more extensive draft report should be submitted to the MIF/Bank Project Team by August 30, 2006. The consultant will have ten (10) working days to incorporate the comments and the final version of the report should be sent to the MIF/Bank. The report should be written in English, but the BOP purchasing power map should be in English and Spanish. The consultant will also submit a copy of all computer files containing data used in the course of project preparation and the final documents, together with one photocopy of all background materials and documents used in the process of report preparation. Once the MIF Office deems the report satisfactory the consultant's work will be completed.

VI. SUPERVISION/COORDINATION

- 6.1 The consultant will work under the supervision of the MIF Office to whom the reports will be delivered.

VII. BUDGET

Budget

Type of Expense	Total US\$
Honoraria	
Senior project consultant - 50 days @US\$600	30,000
Three junior consultants -- 150 days @US\$400	60,000
Technical consultant (layout and design) -- 40 days @ US\$600	24,000
Publication costs	11,000
Editing	25,000
Printing (maps, diagrams and report)	
GRAND TOTALS	150,000

VIII. SCHEDULE OF PAYMENTS

- 8.1 30% (US\$ 45,000) upon contract signature
- 8.2 40% (US\$ 60,000) upon delivery of the first draft
- 8.3 30% (US\$ 45,000) upon delivery of final report considered to be in compliance with this TOR by the MIF Office

**Empowering the Economic Base of the Pyramid
Procurement Plan**

RG-T1227

Principal Project PROCUREMENT	Amount US\$	Financing Sources		Procurement Method	Prequalification	Specific Procurement Notice		Status
		IADB	Local/other			Yes/No	Tentative Publication Date	
1 consulting firm to develop the studies and reports	150,000	100%	0%	Consulting firm through Justified single source	No	N/A		Pending