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MULTILATERAL INVESTMENT FUND

COLOMBIA

**CÍVICO – NEIGHBORHOOD STORES: RESILIENCE THROUGH
DIGITALIZATION**

(CO-T1632)

DONORS MEMORANDUM

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PROJECT SUMMARY

CÍVICO– NEIGHBORHOOD STORES: RESILIENCE THROUGH DIGITALIZATION

In 2020 and 2021 Colombia and its capital city, Bogota, have experienced an unprecedented crisis. The presence of COVID-19 in society exacerbated inequality and created new socioeconomic gaps. Certainly among those most affected are small neighborhood businesses, which account for 91% of the businesses in Bogota, a region that represents 31% of the country's GDP. Never has working at the base of the pyramid been so important for sustaining and reviving the economy.

Colombia is estimated to have more than 260,000 neighborhood stores and 34% of them are in Bogota. The average purchase has a value of Col\$9,900, and 70% of these shopkeepers¹ has sales of less than Col\$300,000 per day, primarily in beverages and dairy products. These stores are key players in the neighborhood's economy and need help to digitalize, make themselves known, understand the new digital world, sell online, receive non-cash payments at their points of sale, and receive financial training to manage their businesses and gain access to productive loans.

This initiative of IDB Lab and CÍVICO would allow for the digital and financial inclusion of 12,000 neighborhood stores, helping to give them continuity and resilience by: (a) digitalizing them: building their online presence; (b) giving them access to finance: strengthening and growing their businesses with capital; (c) equipping them with new payment methods; (d) helping them to digitalize cash through QR code payments and/or payment links; (e) facilitating online sales: creating an online stores; (f) helping them with their deliveries: connecting partners for home deliveries in the city; and (g) training them: giving them access to an online tool for developing their business management, financial, and digital skills.

This project hopes to achieve the following outcomes: (a) 12,000 new stores operating in a digital ecosystem, with at least 5,400 of these run by women; (b) 10,200 stores able to offer a digital payment method (QR code and payment links); (c) 9,600 stores offering online products or services; (d) 3,905 shopkeepers have applied for financing for their stores digitally; and (e) 3,000 stores have accessed a training program on skills for the digital world.

¹ "Shopkeeper" refers to the person in charge of the business, who is usually the owner or co-owner.

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ABBREVIATIONS

AML/CTF	Anti-money laundering and combatting terrorism financing
B2B2C	Business-to-Business-to-Consumer, a model whereby a company reaches the end customer through another business
Col\$	Colombian pesos
COVID-19	Specific strain of coronavirus
IDB Invest	Brand name of the Inter-American Investment Corporation
IDB Lab	Innovation lab of the IDB Group
mPOS	Mobile point of service
MSME	Micro, small, and medium-sized enterprise
NRTC	Nonreimbursable technical cooperation
OII	Office of Institutional Integrity
SaaS	Software as a service
SMEs	Small and medium-sized enterprises

EXECUTIVE SUMMARY

CÍVICO – DIGITAL AND FINANCIAL INCLUSION OF NEIGHBORHOOD STORES (CO-T1632)

Country and geographic location:	Colombia		
Executing agency:	CÍVICO DIGITAL S.A.S.		
Focus area:	Financial inclusion/digitalization of small and medium-sized enterprises (SMEs)		
Coordination with other donors/Bank operations:	This project is strategic for post-pandemic economic recovery as it focuses on increasing the resilience of Colombia's neighborhood stores, which provide employment for more than 260,000 families in the country.		
Project beneficiaries:	By December 2022, this project will digitalize 12,000 neighborhood stores in Bogota. That is to say, it will provide them with tools for managing their business online, including e-commerce and online visibility, home deliveries managed online, and digital payments.		
Financing:	Nonreimbursable technical cooperation:	US\$532,000	50%
	Counterpart:	US\$532,000	50%
	Total project budget:	US\$1,064,000	100%
Execution and disbursement period:	24 months for execution and disbursements.		
Special contractual conditions:	Conditions precedent to the first disbursement of the technical cooperation funds will be contracting of the project coordinator and submission of a work schedule for the project.		
Environmental and social impact review:	This operation was screened and classified as required by the IDB's Environment and Safeguards Compliance Policy (OP-703). Given the limited impacts and risks, it is proposed that this be classified as a Category "C" operation.		

I. THE PROBLEM

- 1.1 **Neighborhood stores in Colombia during the COVID-19 pandemic.** According to information from the Federación Nacional de Comerciantes [National Federation of Merchants] (FENALCO), there are more than 260,000 neighborhood stores in Colombia; these are understood as small businesses usually operated by their owners (not convenience store chains), sometimes with the help of an employee and focused on food and basic personal care, cleaning, and other products for the home, such as school supplies or basic hardware. Thirty-four percent of these stores are concentrated in the metropolitan area of Bogotá. Seventy percent of the shopkeepers have sales of less than Col\$300,000 per day (less than US\$82). The average purchase value is less than Col\$9,900 (less than US\$3).
- 1.2 Neighborhood stores have a major impact on the economic dynamics of the areas where most of Colombia's poor and vulnerable population lives. It is estimated that more than 30% of consumption by the country's population occurs in businesses like these, according to a report from the BIT Group on the traditional channel, with much higher percentages among the poor and vulnerable population.²
- 1.3 **The pandemic's impact on the stores** has been significant. Stores have suffered economic difficulties with the pandemic, as their usual customers are earning less and cannot afford to spend as much as they did before the crisis. Moreover, the stores do not have solid digital channels for selling their products and services, so they have lost many customers to large retail chains. According to *Tienda Registrada* in a report on the impact of COVID-19 on shopkeepers, 45% report that the number of people visiting their stores has declined. The average number of shoppers has fallen by 23%. Hours of operation have been cut back in 97% of these stores. To counteract this situation, shopkeepers have implemented biosafety measures such as use of masks, hand-washing, access controls, disinfection, and social distancing. According to Meiko, a store distributor, 31.5% of shops report that they are making home deliveries, compared to only 5% before COVID-19. In all, 59.7% of shopkeepers have reported fewer visits by distributors during the pandemic.
- 1.4 **Challenges of digitalization.** For neighborhood stores, the ability to operate digitally makes them more resilient to the pandemic's impact. For example, it allows them to appear in online searches, receive orders remotely, manage home deliveries, or accept payments. However, the rate at which neighborhood stores are adopting digital tools is low. Although most store owners and employees have smart phones and use social media (WhatsApp and Facebook), they do so for their personal business, missing the opportunity to use them to support aspects of the business.
- 1.5 With the pandemic, this began to change for some store owners who are beginning to take orders from customers through WhatsApp as well as communicate with suppliers, given difficulties in reaching distributors and receiving visits from them, which was a weekly occurrence before the pandemic.

² The monetary poverty line for a four-person household was Col\$1,326,752 in 2020, nationally. In Bogotá, the monetary poverty line for this same household is Col\$1,820,120. A shopkeeper with a 20% profit-to-sales ratio, who operates the business 30 days per month, could be considered poor if his/her four-person family has no other source of income.

- 1.6 **The problems of neighborhood stores in Colombia.** The pandemic has aggravated the problems that shopkeepers were already experiencing before. CÍVICO, which has worked with this segment for four years, has identified the following problems: (a) little or no online presence; (b) low incomes and difficulty growing due to the lack of working capital and knowhow; (c) access to credit limited to moneylenders; (d) use of cash only; and (e) limited capacity and experience with accessing and/or using tools to interact digitally with customers, suppliers, and financial intermediaries.
- 1.7 **The start of CÍVICO's and its partners' work in Bogota.** According to the Bogota Chamber of Commerce,³ some 53,000 companies have closed as a result of the pandemic and an estimated 87% of them were microenterprises. In light of this situation, the Mayor's Office of Bogota joined forces with CÍVICO and in July 2020 launched *Despega Bogotá* [Bogota Takes Off] (www.despegabogota.com), a digital and financial inclusion ecosystem operated by CÍVICO that allows small merchants to transform their businesses by having an online presence, helps them sell on the Internet and via chat, connects them with a delivery partner, helps them build digital and financial skills, and gives them access to microcredit and microinsurance.
- 1.8 To date this program has reached 48,548 microenterprises and small businesses⁴ including 2,889 neighborhood stores, through an initiative that the following have also joined: MASTERCARD – Business acceptance and transaction incentive partner, ACCIÓN – Online financial inclusion and education partner, DAVIVIENDA – Banking partner with procurement, business aggregation, and payments services, CREDIBANCO – Mobile point of sale (mPOS) and data for the ecosystem partner, AFLORE, MO – Loan partners, and MENSAJEROS URBANOS – Delivery partner that transports products from merchants to consumers. It is important to note that the *Despega Bogotá* program has focused on all types of micro, small, and medium-sized enterprises (MSMEs) and has had a limited impact among neighborhood stores, which are more digitally precarious and face problems related to the vulnerability of their owners and employees and of the businesses themselves.
- 1.9 Leveraging the experience of *Despega Bogotá*, this project would bring a digital solution focused on neighborhood stores that includes three major vectors or components: digitalization of the business, adoption of financial services, and development of skills for growing the business.
- 1.10 **Project selection.** This project has been selected as part of IDB Lab's INTEcGRA initiative, a window supporting projects that contribute to the continuity and resilience of independent neighborhood stores affected by the pandemic in Latin America and the Caribbean. The initiative is spearheaded by IDB Lab, with the collaboration of IDB Invest, the IDB's Office of Outreach and Partnerships, and a group of consumer goods companies that includes PepsiCo, Danone, ABInBev,

³ <https://www.larepublica.co/empresas/camara-de-comercio-revelo-que-la-pandemia-hizo-cerrar-mas-de-53000-empresas-en-bogota-3111120>.

⁴ In Colombia, microenterprises are economic entities with no more than 10 workers, total assets below 501 times the current legal monthly minimum wage. Small businesses have between 11 and 50 workers, total assets above 501 times and less than 5,001 times the current legal monthly minimum wage (Law 590 of 2000).

Arca Continental, Coca-Cola, Effem Mars, Millicom, Postobón, and the International Council of Beverage Associations.

- 1.11 Neighborhood stores provide employment and income to millions of families in the region. In addition, families in low-income neighborhoods depend on these stores to obtain food for daily meals such as grain, fruit, and vegetables, as well as basic goods and services, to access financial services through correspondent agents, to make utility payments, and to reload mobile phones. Consumer goods companies make intensive use of the neighborhood stores channel, which often account for one-third of sales in some areas. However, the COVID-19 crisis has caused many stores to close, affecting the continuity of more than half of them in several countries. To address these problems, this initiative seeks to support innovative projects that contribute to the following indicators: (a) increase the number of stores that have incorporated the new technologies, i.e. the digitalization of a key area of their business such as online sales, payments and digitally managed deliveries; (b) increase the number of small business owners and employees who have acquired digital know-how and other knowledge improving the sustainability of their stores; and (c) increase the total number of small businesses that have improved their long-term sustainability through the incorporation of new tools and business strategies and access to finance.
- 1.12 As a result of the initiative, IDB Lab received 92 project ideas; 19 were pre-selected and submitted to Management; and 9 were considered eligible and are currently in the co-creation phase.
- 1.13 **Beneficiaries.** The project expects to reach 12,000 shopkeepers in Bogota, to help them transform themselves digitally and revive their business, creating a digital presence and selling online, providing them with a delivery partner and access to credit products and acceptance of electronic payments.
- 1.14 Based on information from CÍVICO's clients, shopkeepers have the following socioeconomic profile: have one to four children, a primary or secondary level of education, a monthly income between US\$570 and US\$1,500, are age 35 to 55, and reside in an urban area. According to information compiled by CÍVICO, 47% of the stores are operated or led by women. Their employees tend to be in the low and medium-low sextiles,⁵ generally earning incomes below the minimum wage, and have the same level of education and number of children as the owners but are somewhat younger (18 to 40).
- 1.15 The neighborhood stores that will be supported by the project are located in 19 localities in Bogota. A store is a small establishment with direct service provided by a vendor or employee. This also assumes the existence of a counter or table that separates the sales area from the items that are on sale. These are stores selling food, beverages, household items, and basic necessities, with different varieties in the profile and some stores with specializations, such as baked goods, pastries, prepared meals, basic financial services, reloading of telephones, etc.

⁵ In Colombia, the strata methodology is used, and this group corresponds to strata 2 and 3.

II. THE SOLUTION

A. Project description

2.1 The project objective is to support the digitalization process in Bogota's neighborhood stores, using the CÍVICO platform, to make these businesses resilient to the COVID-19 pandemic.

2.2 **Model or solution.** CÍVICO was created⁶ in 2013 by Juan Felipe Castaño, Ricardo Pombo, and Juan Carlos Agudelo as a startup aimed at digitalizing cities to make them better for residents, by developing digital and financial inclusion tools for urban businesses. It began by creating a large database of businesses in Bogota that was crowdsourced. This enabled it to craft solutions for suppliers, merchants, consumers, and government, all for the purpose of connecting small merchants with local consumers, impacting their quality life.⁷ The solution has an Android app for small merchants called CÍVICO *Negocios* and an Android and iOS app for local consumers, connecting the supply of products and services with local demand in the neighborhoods. Through the CÍVICO *Negocios* platform for small merchants, shopkeepers start on the path to digitalizing their businesses.

2.3 The path can be illustrated in these steps:

Step 1 – Linkage: The shopkeeper downloads the CÍVICO *Negocios* app and enrolls free of charge.

Step 2 – Microcredits: CÍVICO captures data to build the shopkeeper's credit score and then offers microcredits through multiple partners or directly.

Step 3 – Online presence: The shopkeeper completes his/her store's profile with detailed information and photos so that local consumers can find it.

Step 4 – Digital payments: The shopkeeper sets up his mobile phone as a payment tool (QR code, payment links) and can also purchase an mPOS⁸ through the app.

Step 5 – Online training: The shopkeeper strengthens his/her digital, management, and financial skills⁹ with different educational options offered through CÍVICO *Negocios*.

Step 6 – Online sales: The shopkeeper posts products and services and sells them through CÍVICO or via chat.

⁶ <https://forbes.co/2020/12/15/negocios/la-historia-de-civico-la-plataforma-que-apuesta-por-digitalizar-a-las-pymes/>

⁷ There is evidence showing the positive impacts that the adoption of digital payments has for small businesses like neighborhood stores. In Mexico, for example, widespread distribution of debit cards to Prospera beneficiaries generated increased sales in neighborhood stores averaging 6%, due to the fact that 13% of total consumption by supermarket customers in the richer quintiles shifted to neighborhood stores (Higgins, 2020, "[Financial Technology Adoption](#)").

⁸ An mPOS is a business smart phone functionality for reading payment methods (customer cards or smart phones enabled with that function).

⁹ CÍVICO offers ACCIÓN International's Ovante platform for training, but as a result of the project a HUB concept will be developed for training or instruction or knowledge resources and expertise that will connect various content and training programs for the project's stores.

Step 7 – Deliveries: The shopkeeper uses the CÍVICO delivery partner¹⁰ to deliver products to customers.

- 2.4 The digital transformation of a business is a clear path toward economic recovery during this pandemic crisis. Economic sustainability and growth for those businesses now depend on their ability to adapt and convert to an online business, to accept digital payments in the store, and gain easy access to microcredits to be able to grow the business. The project will help to make this offline to online transition a success for neighborhood stores. This will ultimately facilitate the long-term sustainability of neighborhood stores.
- 2.5 **Innovation.** CÍVICO promotes innovation to impact its clients' quality of life. This includes the crowdsourcing approach to map the city, the digital and financial inclusion ecosystem through CÍVICO *Negocios* for small merchants, and the CÍVICO Marketplace connecting consumers with small merchants to help them find and buy products and services in their neighborhoods, ultimately gaining an understanding of the city through data processing and helping the government and brands to make business decisions. This project is promoting innovation in base of the pyramid stores through: The digital and financial inclusion of 12,000 stores in Bogota. – The creation of their online presence so they can access microcredits to strengthen their business, receive digital payments at their point of sale, helping them to sell online, connecting them with a delivery partner, and helping them to build business, financial, and digital skills. – A connection to different key market participants to help small merchants when they need it most: Mastercard, ACCIÓN, Davivienda, Credibanco, Aflore, and MO. – The recipients are neighborhood stores throughout the city in various categories such as neighborhood stores, delicatessens, minimarts, neighborhood supermarkets, tobacco shops, and candy stores/chocolate shops. – The business model creates a digital ecosystem in which all participants win by doing good.
- 2.6 **Sustainability.** The project's sustainability will derive from making digital and financial ecosystems grow for base of the pyramid businesses, and the principal mission is the digital and financial inclusion of these small merchants in cities. The CÍVICO business model has various sources of income: financial services, data, and brand engagement. It works with financial partners such as banks, fintechs, and payment companies to offer different financial services to the base of merchants and has an entry fee for each product it activates. It captures, processes, and displays all the data it captures in the ecosystem and sells tips and insights such as the consumer journey, the map of competitors, and consumer behavior via a customer dashboard: government and brands. It works with consumer packaged goods in a Business-to-Business-to-Consumer (B2B2C) model, connecting the traditional channel through the activation of buyers and shopkeepers.
- 2.7 **Gender:** There will be strategies that seek to increase the participation of women owners/managers in stores participating in the program. For this, digital campaigns will be conducted and segmented by gender, inviting women shopkeepers to participate. Partnerships will also be sought with women's groups that seek to support them and invite them to strengthen their stores through this program, and

¹⁰ CÍVICO works with *Mensajeros Urbanos* [Urban Messengers] for home deliveries.

finally we will do field activations seeking out these women shopkeepers and linking them on a preferential basis. These actions aim to achieve the participation of women shopkeepers at a level between 47% and 50%.

2.8 **Component 1: Digitalization of neighborhood stores¹¹ (nonreimbursable technical cooperation: US\$132,083; local counterpart: US\$225,550)**

2.9 The objective of this component is the digital inclusion of the project's neighborhood stores with a digital presence and to help them sell online.

2.10 To achieve this objective, the executing agency will perform the following activities:

- a. **Connecting stores:** This activity will allow us to attract businesses to the CÍVICO ecosystem (digital marketing channel).
- b. **Digitalizing stores:** Through different channels (call center, street channel) businesses will be connected on a mass basis to the CÍVICO ecosystem. There will be a digitalization manager who will be responsible for managing this component.
- c. **Platform support (Software as a service - SaaS):** This is the activity where platforms are to be contracted as services to support technological platforms and data processing; it is where all project information and diagnostics (dashboards from the point of view of the linked businesses) will be analyzed.

2.11 As a result of this component, the project expects to have: 12,000 stores linked to the CÍVICO *Negocios* ecosystem for the first time; 12,000 stores that have created their online presence in CÍVICO; 9,600 stores that offer at least one product to be sold through CÍVICO or via chat; and 5,400 stores linked to the CÍVICO platform that are operated by women.

Component 2: Digital financial inclusion (nonreimbursable technical cooperation: US\$326,717; local counterpart: US\$250,450)

2.12 The objective of this component is the financial inclusion of the project's stores through access to microcredits to strengthen their businesses and activate digital payment methods for selling using tools such as QR codes at their point of sale and/or payment links via chat.

2.13 To achieve this objective, the executing agency will perform the following activities:

2.14 **Digital payments:** The project will finance the following activities for the payment methods service.

- a. **Street channel and call center:** To activate payment methods in the stores, a street channel and call center is contracted through which an activation, adoption, and follow-up operation is conducted for each store so that it activates and uses its payment method.
- b. **SaaS technological platform:** To support this service, SaaS model platforms are contracted to support this activity.

¹¹ All specific activities in this component and the following components are identified and costed in the project's itemized budget (Annex II), which will be attached to the nonreimbursable technical cooperation and contingent recovery funding agreement; thus, and for purposes of brevity, only the main activities of each component are described in this section.

- c. **Payment gateway:** This refers to the activity where the payment gateway takes charge of managing all transactions within the ecosystem (payments, releases, tax rebates, et al.).
 - d. **Settlement service:** The technology for the transaction settlement service is the activity in which all cash flows from different accounts are controlled to understand balances and potential differences.
 - e. **Customer service:** This is the activity whereby users are given support.
 - f. **Data:** The data generated by the payment methods activity. It is another expense component that consists of capturing, processing, analyzing, and displaying the information in this service through dashboards for monitoring the service.
- 2.15 **Prototype for digital credits to stores in vulnerable neighborhoods:** The project will finance the following activities for the credit facility:¹²
- a. **Origination:** Refers to the credit origination activity using the different channels (call center and street channel) and collection call center.
 - b. **Data for the risk model:** A transactional data service is contracted from a third party to provide input for the CÍVICO risk model.
 - c. **Credit technology:** A third party platform is used for processing transactions (Imix platform) where funds are moved among the different agents in the ecosystem (transactional core).
 - d. **SaaS technological platform:** As described in the previous section.
 - e. **Data:** As defined above.
 - f. **Credit manager:** There will be a credit manager and a credit analyst who will be responsible for managing this component.
- 2.16 As a result of this component, the project expects to have: (a) 10,200 stores that have activated the acceptance of digital payments with CÍVICO (QR code or payment links), (b) 3,905 stores that have applied for financing digitally through CÍVICO (c) 2,734 stores with financing obtained digitally, (d) 1,299 stores that have applied for credit for the second time through CÍVICO, (e) 14.5% difference between the interest rate of stores affiliated with the platform and the benchmark microcredit rate, and (f) 10% portfolio at risk for financing granted to stores through CÍVICO.

¹² CÍVICO will have two modes of lending: (a) LOANS THROUGH PARTNERS. For this, it works with Aflore and KEO, which are fintechs that leverage their placement and recovery models to originate loans for clients in the CÍVICO ecosystem. The loans range from US\$50 to US\$3,000, with terms of 30 days to 24 months. Both fintechs work with CÍVICO on the origination and recovery process. (b) LOANS ORIGINATED BY CÍVICO. These are for under US\$140, with terms of 90 to 210 days (averaging 145). Placement is based on a risk model based on machine learning that is fed by CÍVICO's own database. Support is provided through loan officers who validate the business' information and complement the risk model. The portfolio is monitored through a scorecard with 29 variables and a system that reports the portfolio at risk over 30 days (PAR30) in real time.

Component 3: Skills for the digital and financial world (nonreimbursable technical cooperation: US\$41,200; local counterpart: US\$24,000)

- 2.17 The objective of this component is to give shopkeepers access to digital training content and programs to improve their capabilities for managing their business in the digital world and for managing the financial world.
- 2.18 To achieve this objective, the executing agency will integrate shopkeeper training modules into CÍVICO. In this activity the third-party training module will appear in the CÍVICO ecosystem so that the store can interact with the content as part of the same user experience. There will be a training manager to coordinate and monitor the training modules. As part of this component, CÍVICO will propose a set of financial, business, digital, and soft skills it will seek to strengthen among shopkeepers and their employees and will create a promotion or incentive system to increase use of the training tools supported by the project.
- 2.19 As a result of this component, 3,600 shopkeepers will have accessed a training program offered through CÍVICO, 1,080 will have completed at least one training module through the program, and 324 trained shopkeepers will demonstrate having incorporated essential skills for the digital or financial world.

Evaluation, strategic project management, and knowledge products (nonreimbursable technical cooperation: US\$32,000; local counterpart: US\$32,000)

- 2.20 Project funds will be used to finance a strategic director/coordinator for the project, knowledge products, and an evaluation.
- 2.21 As a result of these activities, there will be a final evaluation, a case study, an institutional results video, and an event to present project results, which will include the practices, technology, marketing, user acquisition, and business model employed by CÍVICO.

B. Project results, impact, monitoring, and evaluation

- 2.22 **Results.** This IDB Lab and CÍVICO initiative expects to incorporate 2,734 stores on the CÍVICO platform for the first time and with all services received (digital presence established, credit received, and training completed), helping to give them continuity and resilience in the following ways: (a) digitalizing them: building their presence on the Internet, (b) giving them access to finance: strengthening and growing their businesses with capital, (c) enabling new payment methods for them, (d) helping them to digitalize cash through payments using a QR code and/or payment links, and (e) facilitating online sales: creating their online store, (f) helping them with deliveries: connecting partners for home deliveries in the city, and (g) training them: giving them access to an online tool for developing their business management, financial, and digital capabilities.
- 2.23 This project expects to achieve the following outcomes: (a) 12,000 stores operating for the first time in a digital ecosystem, in which at least 5,400 of them will be run by women, (b) 10,200 stores set up with digital payment methods (QR code and payment links), (c) 9,600 stores offering their products or services online, (d) 3,905 stores that are interested in and have applied for microcredit digitally, and (e) 3,600 stores that have access to a training program on skills for the digital world.

- 2.24 **Impact.** After two years of execution, the project will have digitalized 12,000 neighborhood stores; 10,200 of these will accept digital payment methods such as a QR code or payment links, 9,600 will sell online, 3,905 will apply for microcredit digitally, and 3,000 will have been trained in at least one course to strengthen their business and financial skills.
- 2.25 **Monitoring.** CÍVICO will be responsible for monitoring and evaluating project results as shown in the results matrix. It will develop IT tools integrating data from the project's different applications and interactions with the beneficiary population, so that it can evaluate not only the results matrix indicators but also the entire model. In addition, it will also be possible to review project results in CÍVICO's internal systems, for example: stores linked, payment methods activated, with posted products and financial services placed. The system will monitor results and statistics and evaluate the beneficiaries. Meetings may also be held at the request of IDB Lab to review and monitor progress related to the project.
- 2.26 **Evaluation.** This project will include a final evaluation and should contain parameters reasonably requested by the Bank, at the least an analysis of: (a) achievement of project objectives and indicators described in the project's results matrix, and (b) lessons learned from the project. The evaluation will be prepared for publication and dissemination by IDB Lab and CÍVICO.

III. PROJECT ALIGNMENT WITH THE IDB GROUP, SCALABILITY, AND RISKS

A. Alignment with the IDB Group

- 3.1 This project is consistent with the IDB Group document, Vision 2025, Reinvest in the Americas: A Decade of Opportunity (February 2021), and particularly with the third approach: working towards sustainable and inclusive economic growth (page 15), which sets as priorities: digitalization and faster adoption of new technologies and SME support.
- 3.2 The project also exemplifies how IDB Lab is leading the IDB Group's efforts in developing the innovation and impact ecosystem in Colombia and in creating conditions conducive to post-pandemic economic growth, particularly by supporting innovation vehicles that contribute to greater resilience in businesses that generate economic activity in neighborhoods where the poor and vulnerable population lives. The project is aligned with the IDB Group's country strategy with Colombia (2019-2022), which identifies low utilization of digital tools and a limited supply of online products on the part of Colombian companies as a barrier to increased productivity in the economy and proposes to "strengthen local innovation and digital venture ecosystems" and "promote electronic commerce."
- 3.3 This project will also build on work done with SMEs or on digitalization or information and communication technologies (ICTs) in Colombia. In addition, it incorporates lessons learned from projects with shopkeepers like the project "Shopkeepers Leading Improvements in Their Communities," executed by the Foundation for Sustainable Development (FUNDES) in Colombia and other countries of the region (RG-M1241).

- 3.4 **Scalability.** According to the Bogota Chamber of Commerce, the city has 788,675 formal companies and 91% are microenterprises. CÍVICO now has more than 50,000 SMEs using its CÍVICO *Negocios* ecosystem, that is 7% of the formal SMEs in the city. Of the 50,000 SMEs that CÍVICO has, only 2,889 are neighborhood stores in Bogota. With the help of this project, CÍVICO will multiply fivefold the impact on neighborhood stores with its ecosystem and current supply of services, activating a total of 14,889 stores throughout the city. CÍVICO *Negocios* is free of charge for the shopkeeper, allowing for the scalability of the proposal. The CÍVICO business model has three lines of business: financial services, data, and activation of brands by different strategic partners in the market with which it is already operating at 100% (Mastercard, ACCIÓN, Credibanco, Davivienda, and Mensajeros Urbanos). The sustainability of the intervention model is based on the development of these lines of business to guarantee CÍVICO's income flow in the future.¹³

B. Project risks

- 3.5 **Risks of limited demand and reduced buying power of stores' customers due to COVID-19 (external):** The COVID-19 pandemic and actions taken by the local or national government to mitigate its effect on the population have affected neighborhood stores due to the partial or total closure of their business, as well as the purchasing power of potential shoppers.
- 3.6 **Mitigation:** To mitigate this risk, CÍVICO supports shopkeepers by giving them the ability to operate digitally. This allows them to operate with closed doors, if they're allowed to, given that they can appear in online searches, receive orders remotely, manage home deliveries, or accept payments electronically. In this way, CÍVICO helps to mitigate the effect of closures in the city.
- 3.7 **Technological risk (internal):** With the growth expected in the entire operation of the ecosystem, there is the risk of not having the technological capacity to support proper functioning.
- 3.8 **Mitigation:** Based on projected growth and its vision of geographic expansion, CÍVICO's technological bases were constructed to be as flexible, scalable, high performance, and available as possible from the outset, seeking optimization of operating costs and using services or platforms on demand (cloud services) whenever possible. CÍVICO has application level configurations that allow for high availability. In addition, it uses redundant servers to improve service levels and provisioning capacity very quickly in cloud services, with suppliers like Rackspace, Amazon, and others.
- 3.9 **Operational risk (internal):** Funders fail to perceive the economic benefit of the base of the pyramid credit business, which would lead to not raising sufficient capital for 2,734 loans.
- 3.10 **Mitigation:** The effort from the outset of the program will be to use current results as the foundation for the credibility of programs of this kind, showing that profitability exists, to a great extent leveraged by CÍVICO's ability to manage the businesses that are linked and activated in the ecosystem. In addition, funding

¹³ Mastercard and Davivienda support the *Despega Bogotá* initiative through CÍVICO with US\$100,000 for transaction incentives.

sources will be extended beyond the traditional institutions to include individuals who are looking for better returns on capital compared to what they currently obtain on the market.

- 3.11 **Risk of limited adoption:** Most stores fail to perceive the benefit of joining the program, so that it is impossible to attract the total number of businesses.
- 3.12 **Mitigation:** This risk will be mitigated with three elements: leverage of CÍVICO's current ecosystem as the launch pad for generating awareness of the benefits, recruitment efforts and direct participation of the CÍVICO team and direct marketing and communication strategies, even involving community leaders.

IV. COST AND FINANCING

- 4.1 The project has a total cost of US\$1,064,000, US\$532,000 of which will be contributed by IDB Lab as nonreimbursable technical cooperation. The executing agency will contribute the counterpart amounting to US\$532,000 (50%), 60% of which will be in cash and 40% in kind. The following table summarizes the project budget, which is itemized and attached as Annex II.

Table 1: Project budget (US\$)

Component/Activity	IDB Lab	CÍVICO Cash	CÍVICO In kind	Total
Component 1	132,083	161,000	64,550	357,633
Component 2	326,717	112,100	138,350	577,167
Component 3	41,200	24,000	0	65,200
Final evaluation	14,500	0	0	14,500
Knowledge product	4,000		5,000	9,000
Coordinator	13,500	13,500	13,500	40,500
Project total	532,000	310,600	221,400	1,064,000

V. PROJECT PARTNERS AND IMPLEMENTATION STRUCTURE

A. Description of project partners

- 5.1 The executing agency, CÍVICO DIGITAL S.A.S., is a Colombian private commercial entity established under the legal regulations governing it as a *sociedad por acciones simplificada* [simplified joint-stock company] (SAS), identified with national tax ID (NIT) 900,582,531 - 0 under the common regime. It was created on 8 January 2013. Assets for 2020 were some US\$3.04 million,¹⁴ liabilities were approximately US\$2.01 million, and equity was about US\$1.03 million, after net losses of approximately US\$1.4 million. It has 19 direct employees and 34 indirect employees.
- 5.2 CÍVICO has developed a platform that maps a neighborhood's businesses by creating a broad-based, cost-efficient digital and financial inclusion ecosystem that generates unprecedented data on the city. The encompassing nature and scalability of its model and the data it captures become the essential input for

¹⁴ At the exchange rate as of 31 December 2020, which was Col\$3,420 per US\$1.

developing its strategy: to be the largest digital originator of credit for small businesses in Latin America.

- 5.3 It works with more than 70,000 small businesses in Bogota and Mexico City, helping them to digitalize, sell by cell phone and online, obtain training, and gain access to microcredit. Today it links 3,000 new businesses each month to the ecosystem and has more than 700,000 businesses mapped in Bogota and Mexico City. CÍVICO has an impact model based on digital and financial inclusion, in addition to developing a business that is responsible and favorable to small business.
- 5.4 In 2020, it signed an agreement with the Mayor's Office of Bogota through the District Economic Development Department to develop and operate the digital transformation and economic revival program for Bogota's MSMEs in the context of the pandemic, called *Despega Bogotá* (Bogota Takes Off).
- 5.5 The *Despega Bogotá* program has generated important milestones for improving the living conditions of MSMEs in Bogota that have been affected by closures associated with the pandemic, contributing to their digital transformation and financial inclusion. The results of the program as of close of business on 8 April 2021 are as follows:
- 48,548 MSMEs linked to the program (30,000 new MSMEs linked between 15 June 2020 and 8 April 2021) and 18,548 MSMEs covered by the program that belonged to CÍVICO before the program.
 - 10,539 MSMEs interested in loans, with 1,032 loans approved for Col\$542 million.
 - 38,637 MSMEs that have launched digital payment methods (QR code and payment links).
 - Col\$1,064,236,403 in sales with 13,311 transactions throughout the ecosystem.
 - 13,862 MSMEs that are offering their products or services online.
 - 41,032 products posted to be sold online.
 - 13,033 MSMEs being trained in the training program.
 - More than 679,383 visits, 922,620 searches, 64,605 calls, and 5,033 messages to the program's MSMEs.
- 5.6 With regard to costs, operations within the tool are entirely free and merchants only need to pay when a transaction is generated. In the case of sales using digital payment methods, the finance charge is 1.99%.

B. Implementation structure and mechanism

- 5.7 CÍVICO will establish an executing unit and the structure needed to implement project activities and manage project resources effectively and efficiently. CÍVICO will also be responsible for submitting progress reports regarding project implementation. Evidence of having hired the executing unit's coordinator will be submitted to IDB Lab for approval as a condition precedent to the

- first disbursement. The decision-making structure within the program executing unit will be reviewed in the operation's kickoff workshop.
- 5.8 CÍVICO as the executing unit and project leader will be responsible for promoting and proposing the strategy and executing each project stage. This execution strategy will be addressed by the CÍVICO lead team and its partners. In addition, in order to maximize the synergies between the ecosystem's participants, every six months CÍVICO will convene a project advisory committee with the strategic partners, which will include the project supervisor on behalf of IDB Lab, representatives from Mastercard and ACCIÓN, and Eduardo Salazar as project consultant. This committee will meet twice a year for submission of the half-yearly project status reports.

VI. ACHIEVEMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

- 6.1 **Results-based disbursements and fiduciary arrangements.** CÍVICO, as the executing unit, will agree to comply with IDB Lab's procedures related to results-based disbursements, procurement, and financial management as specified in the technical file. Project disbursements will be contingent upon verification of achievement of the milestones, according to the means of verification agreed upon between the executing unit and IDB Lab. Achievement of the milestones does not relieve the executing unit of the responsibility to fulfill the results matrix indicators and the project objectives.
- 6.2 Under the risk- and performance-based project management method, project disbursement amounts will be determined according to the project's liquidity needs, estimated for a maximum period of six months. These needs will be agreed upon between IDB Lab and the executing unit, reflecting the activities and costs programmed in the annual planning exercise. The first disbursement will be contingent upon fulfillment of the conditions precedent and successive disbursements will be paid when the following two conditions are met: (i) verification by IDB Lab that the milestones have been achieved, as agreed in the annual planning; and (ii) that the executing agency has justified at least 80% of the cumulative funds advanced.
- 6.3 **Integrity due diligence.** The project team, with the assistance of the Office of Institutional Integrity (OII), performed integrity due diligence in accordance with the Guidelines on Integrity Due Diligence (document OP-474-1). This review included an examination of CÍVICO's anti-money laundering and combatting terrorism financing (AML/CTF) controls because it meets the international definition of a "financial institution" based on its services related to (i) issuing and/or administering payment methods, and (ii) granting loans.
- 6.4 The review found that CÍVICO's AML/CFT controls are limited and informal, which presents an integrity and reputational risk for IDB Lab. This risk is mitigated by the following considerations: (i) with regard to its services related to issuance and administration of payment methods, CÍVICO carries out this activity hand-in-hand with recognized financial institutions regulated in the area of AML/CFT, which apply their AML/CFT systems and controls to CÍVICO's activities, and (ii) the loan services offered by CÍVICO are small (between US\$30 and US\$130) and will not be used within this project. In addition, the contract will require that (a) CÍVICO will

have to maintain—throughout the life of the project—the same regulated financial institutions with which it currently works, and (b) no IDB Lab financing will go to the business line related to CÍVICO loan services.

- 6.5 Based on the aforementioned mitigating factors, the project team and OII believe that the integrity risks are adequately mitigated and fall within the integrity risk appetite of IDB Lab for this project.
- 6.6 **Procurement.** For the procurement of goods and contracting of consulting services, the executing unit will be governed by the Bank's procurement¹⁵ and financial management¹⁶ policies. CÍVICO is a private entity established by law with its own procurement procedures, which are consistent with private sector processes, and thus Appendix 4 of the Policies for the Selection of Consultants applies.
- 6.7 **Method and frequency of ex post supervision.** Annual review of disbursements and procurement with the audited institutional financial statements. These reviews will include a paragraph describing: (i) income received from IDB Lab, the counterpart, and the project partner sources, (ii) all outlays made using funds from the IDB Lab contribution, as well as those from the counterpart, through the cash flow statement, and (iii) statement of cumulative expenses or investments, showing the amounts spent and the balances available, by project component.

VII. ACCESS TO INFORMATION AND INTELLECTUAL PROPERTY**

- 7.1 **Access to information.** Certain information related to the line of business of the participating companies will be considered confidential according to the Bank's access to information policy. The knowledge products created for the purpose of disseminating project information will have the express authorization of the company's representative if specific information on the company will be disclosed.
- 7.2 **Intellectual property.** CÍVICO will hold the intellectual property rights over the products and studies developed under the project and will grant IDB Lab a license for their use, on a non-exclusive, free, and not-for-commercial purposes basis, within the territory of Colombia and at the regional level. This will ensure maximum dissemination of the lessons learned from the project in Colombia and elsewhere in Latin America and the Caribbean.

¹⁵ Link to Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9).

¹⁶ Link to Financial Management Guidelines for IDB-Financed Projects.