

MULTILATERAL INVESTMENT FUND
ICT INNOVATION PROGRAM FOR E-BUSINESS AND SME DEVELOPMENT
“ICT-4-BUS”

BASIC INFORMATION

Country:	Regional	
Project Number	GN-01-	
Executing Agencies	ICT medium and small sized enterprises and targeted users	
Estimated cost	MIF Grant	US\$5 million (50%)
	Counterparts	US\$5 million
	Total	US\$10 million
Date	November 2001	

SUMMARY OF THE PROGRAM

In accordance with its strategy to foster the development of the private sector, particularly of medium and small sized businesses, the MIF will launch a \$10 million program to support Information and Communication Technology innovation by specialized technology medium and small sized firms (Infopymes) in Latin America and the Caribbean. The main aim of the program is to encourage the offer of innovative ICT-based services and solutions for small business users, which are currently underserved by technology providers. The program is based on a competitive process, which will allow selecting 10-15 proposals and supporting their development over a period of two years.

The selected proposals will delineate a viable plan for the development of ICT solutions and services, the demonstration phase with targeted users, the evaluation of trial results and diffusion of resulting products and services. The program's main benefits will be the intensification of the innovation dynamic of medium and small sized technology firms, the access of SME to ICT solutions and services geared toward improving their competitiveness in the value chain and overall market penetration.

I. BACKGROUND

- 1.1. It is commonly accepted that we live in a knowledge-based economy and that knowledge is the thriving factor behind productivity growth. The share of knowledge-intensive sectors in the world's economy value-added and employment has been rising in the past

few decades. This trend is particularly pronounced in the developed countries, where by 1999 knowledge-based industries represented more than 50 percent of GDP. Furthermore, knowledge-driven innovation has become a decisive factor in the competitiveness of both nations and firms.

- 1.2. Information and Communication Technologies (ICTs) constitute the backbone of the knowledge-based economy. A firm that lacks ability to innovate and grow through the efficient use ICTs in its operations and commerce will lose market share to its competitors. Similarly, countries should expand the ability of developing content, handle and understand information, develop and put to work tools aimed at enhancing human life in its multiple facets, from health to work, education and social life.
- 1.3. This ability depends also on the inherent capacity of the business sector to respond to the needs that emerge in the transition to the information society. In its own a growing sector of the economy, a thriving ICT industry is essential for other sectors of the economy as well as for the society in general: in today's knowledge-based society the ICT sector is called upon to deliver services and tools for the development of other economic and civil sectors.
- 1.4. These technological and business operators, often small tech firms, act as agents that can add value to raw data making it accessible and ensuring that they respond to the information needs of other operators.
- 1.5. The growth of commerce in information goods and services within the countries lays down the groundwork for increasing trade in these services among the countries in the region, thus having a multiple impact on the process of economic integration.
- 1.6. During the years from 1999 to 2000 an incipient industry for ICT has emerged in Latin America and the Caribbean confirming the potential for a small but vibrant information sector that could count on a reservoir of technology and business talents. The subsequent downturn in the fortunes of the sector led in 2001 to a swift reduction of resources in the development of ICT applications.
- 1.7. Innovation by Tech-firms has been reduced and marketing efforts have been concentrated on providing IT services to large corporations, a market that is already controlled by large consulting and/or IT firms. Investments in new ICT technologies tailored to the need of hereto marginalized medium and small sized business users have become much more risky. This represents a potential setback for the access of these users to ICT technologies either for increased efficiency and competitiveness or for market penetration.
- 1.8. The scope for the proposed action by the IDB Group is to ensure that ICT-related innovation investments deployed in the region continue to underpin the development of the economy and the civil society. In particular, it is important that such investments address the crucial challenge of the innovation process to foster ICT adoption by SME, which represent a vital component of Latin American and Caribbean economy.
- 1.9. Such an initiative would be consistent with the overall efforts by the IDB group within its Strategy for the Development of the Information Society, which states the need of "supporting the Information-Producing Sector":

“The Bank will promote and provide funding for, the development of local small enterprises engaged in the production of local content including systems and programs to facilitate the exchange of information for: commerce and trade, health, education, agriculture, manufacturing; civil society organizations, entertainment, sports, financial transactions and marketing of securities, empowerment of citizens, environment, underprivileged groups and indigenous groups.” (OP-711 Information Age Technologies and Development)

- 1.10. In a similar way the Working Group on MIF Strategy has recognized the potential role of ICT for medium and small sized enterprises and made investment in this area one of its priorities for the coming years:

“Information technologies hold both the promise of increased competitiveness and access to global markets, as well as the threat that a ‘digital divide’ may leave the region’s small businesses far behind. [...] the challenge ahead is to maximize the opportunity for all firms to benefit from new information technologies. MIF should assist by providing the use of information technologies as a means of enhancing productivity, providing access to better information, enabling new forms of distribution and marketing, and opening new markets through e-commerce.”

- 1.11. A MIF program to support demonstration and innovation projects in ICT would have following impact:

- (i) foster the development of the ICT sector by providing support to most promising project initiatives, hence creating an environment that is conducive for private investment
- (ii) strengthen the demonstration effect of the technologies by providing region wide-exposure to winning proposals
- (iii) increase the use of ICT solutions by the private sector

As such the program would stimulate the growth of small and mediums sized ICT-based companies (*Infopymes*).

- 1.12. This program builds upon the experience drawn from a recent initiative by MIF, the Innovation Program for Financial Services to Micro-enterprises (TC-00-03-00-4), which is managed by SDS/MSM.

II. PROGRAM BENEFICIARIES

- 2.1. The main beneficiaries of the program will be medium and small sized ICT firms (*Infopymes*) based in Latin America and the Caribbean, including start-ups, specializing in software and content development. The program will also benefit SME at large as users of ICT solutions and services, which can be represented by trade associations.

III. OBJECTIVES AND ACTIVITIES

- 3.1 The objectives of the program are
- (i) to favor the development of ICT applications in Latin America and the Caribbean through a special initiative aimed at supporting commercially sound technology and demonstration projects
 - (ii) To enhance the competitiveness of information technology-based small and medium sized businesses in the region to provide services and solutions to the community
 - (iii) To strengthen the technology base of the economy in Latin America and the Caribbean, in particular the adoption of ICT by medium and small sized enterprises
 - (iv) To promote an information marketplace within the economies of the countries in the region
- 3.2. The Program will support, through a competitive process, between ten and fifteen projects, which will present innovative ICT applications for targeted users, including medium and small sized businesses, networks, not for profit organizations. The projects' main aim will be to demonstrate in pilot initiatives the technical feasibility and commercial viability of proposed applications and services. The proposals will outline in a detailed plan the needs to be addressed, the technology development, the experimental application, the evaluation of results in view of an enhancement of the ICT application model, the dissemination activities that will be implemented.
- 3.3. The program's strategy is to (i) foster adoption of ICT applications for integrated business processes, including e-commerce and value-chain integration, and workplace productivity; (ii) to develop new knowledge and ICT based services; (iii) to improve tools and methodologies that enable creativity in content productions and delivery; (iv) to promote the development and use of middleware and agents to enable interoperativity across platforms and networks which will enhance access by individual and business users throughout the region; (v) to foster use of wireless devices for business services and processes. To ensure additionality of the proposed program, the projects should benefit a extended and effective use of ICT by medium and small sized enterprises.
- 3.4. Information and Communication Technologies solutions and services that could be used within the projects eligible for funding by MIF could include for instance:
- i) *e-commerce and e-business applications*: work will include b2b platforms for commerce practice, services for improved business efficiency through knowledge-rich systems, applications service providers, technology interfaces for business processes, open software applications, smart cards, technology applications for data security, confidence building services and solutions, innovative applications for customer relationship management, enterprise resources planning, payments, accounting services.
 - ii) *e-productivity applications for individuals and organizations*, including teamwork solutions, voice-recognition applications for businesses and individuals, user-friendly interfaces, virtual meetings, teleworking.
 - iii) *Infrastructure and access enhancing systems*: technology innovations (devices and protocols) that will increase access and bandwidth to the Internet, network interoperability, improve mobile systems architecture and protocols

- iv) *Knowledge management and distribution systems*: collaborative authoring, multimedia databases, multi-platform publishing, e-publishing chains, context determined information services, innovative content aggregation, intelligent agents for information retrieving, handling and access, methods for coding digital content,
- v) *Mobile (including satellite-based) applications and services for businesses*, including marketing, business cooperation, resource management, productivity.

IV. PROJECT FINANCING AND DURATION

- 4.1. The total cost of the program is estimated at US\$10 million. MIF financing of proposals up to 50% of total cost. Maximum amount of MIF contribution per proposal: US\$500.000. It is expected that the average size of FOMIN financing for individual projects will be around US\$400.000. The number of projects to be funded by the program will be between 10 and 15. The program will open two calls for proposals within a period of 9 to 12 months. Individual projects will be executed in two to three a year period. Implementation costs – including activities such as preparation, promotion, selection, monitoring and evaluation of the program – are estimated at a total of US\$350.000.

V. OPERATIONAL PROCEDURES

- 5.1. ICT/SDS will be responsible for the overall management of the program including promotional activities, the process leading to the analysis and selection of proposals, as well as the follow-up and control of individual project execution. SDS/ICT will seek cooperation from other Divisions within the Bank and hire outside consultants.
- 5.2. SDS/ICT will launch at least one call per year for proposals open to organizations or consortia from any country eligible to receive MIF financing. The bidding process will follow IDB rules and procedures on procurement.
- 5.3. An independent panel composed of IDB personnel and external experts will select a list of the most valuable projects. These will be presented to the MIF Donors' Committee for evaluation and final approval.
- 5.4. The selection of the proposals will be based on following criteria: i) characteristics in terms of innovation and demonstration in Information and Communication Technology; ii) appropriateness of the execution plan and resources to be mobilized for the project; iii) potential outreach and benefits to new "communities" of users previously at the margins of the Information Society; iv) level of participation of targeted users of the technology; v) financial sustainability; the economic benefit of the proposal in terms of revenue and profits should be stated convincingly; vi) participation of small technology business(es) as the main developer of the technology; vii) potential impact and replicability at national and regional level; viii) experience and technical and financial capability of the proponents in carrying out the project; ix) quality of the plan for the dissemination of results.

- 5.5. Acknowledgment of intellectual property rights stemming from the results of the funded projects will follow practices already established by the IDB Group in similar programs.

VI. PROJECT JUSTIFICATION AND RISKS

- 6.1. The proposed program is on target with the Bank's strategy for Information Technology as stated in OP-711. This policy states that one line of action will be to "promote and provide funding for the development of local small enterprises engaged in the production of local content including systems and programs to facilitate exchange of information" for, among others, trade, commerce agriculture and manufacturing.
- 6.2. The program will strengthen the ability of medium and small sized ICT firms to develop new technology solutions and services in conjunction with their targeted users. By directing eligible projects toward the development of ICT solutions and services that benefit SMEs, the program will also contribute to their effective adoption of ICT as a way to improve their competitive position and penetrate new markets.
- 6.3. The main risks of the program are that i) the selected projects fail to implement sustainable ICT solutions and services as they miss the real demand of prospective users; ii) little or no dissemination is given to the results of the projects; iii) the proponents are not able to access funding for the commercialization of the application or service. While the implicit risk of innovation cannot be fully avoided, the program tries to mitigate its occurrence by requesting prospective projects to strongly involve the user community in the technical and financial demonstration of ICT initiatives. Furthermore, the proponents will have to present credible revenue projections that underpin the financial sustainability of the investment. As concerns the lack of dissemination, the proponents are required to present a detailed plan as to how they will proceed with the dissemination of results. Moreover, after a certain period the IDB will exercise its rights to grant licenses for co-funded technology innovations that are not commercially exploited. The difficulty in accessing further funding is partially mitigated by the visibility that comes with the selection and support through the IDB Group. In addition, the IDB could offer some guidance as to other funding sources that could be available for the commercialization stage.

VII. PROGRAM EVALUATION

- 7.1. SDS/ICT in collaboration with MIF will contract an independent consultant who will perform a mid-term review and final evaluation of the program. The mid-term review will be realized soon after the program will have reached 50% of disbursements. The results of the reviews will be presented to the Donors' Committee.