

MULTILATERAL INVESTMENT FUND
PROJECT ABSTRACT

I. BASIC PROJECT DATA

Project Title: Information Technology Program "Rio Digital"

Country: Federative Republic of Brazil

Project Number: TC-01-01-06-4-BR

Executing Agency: Non-government Organization (NGO) "Viva Rio" in association with the *Comité para Democratização de Informática* (CDI), and Rio Online

Financing:

MIF (Window II):	US\$ 860,000
Counterpart:	<u>US\$ 586,000</u>
Total:	US\$1,446,000

Date Requested: January 26, 2001

II. BACKGROUND

- 2.1 Brazil's electronic commerce (e-commerce) and information technologies (IT) are becoming an increasingly important part of the Brazilian economy, with a growing number of new and small companies being technology-driven. The Euromarketing Associates Institute predicts that by the end of 2001, Portuguese will be the fastest growing language on the Internet. Still, despite accounting for 90% of Latin American e-commerce, only 4.3% of Brazilian's have access to the Internet¹. Consider that while the city of Rio de Janeiro is earning the title of "Silicon Beach," the majority of its population has never touched a computer.
- 2.2 This scenario provides a unique opportunity for young and budding entrepreneurs to develop business skills and know-how in the IT sector and become a dynamic force for job creation and raising standards of living in low-income urban areas. In fact, Brazilian companies cite hiring qualified staff as one of their major challenges, and the need to ensure that more have access to computers, the Internet, and the training necessary to use them.
- 2.3 Three organizations from the city of Rio de Janeiro: CDI (*Comité para Democratização de Informática*), Rio Online and Viva Rio have addressed this challenge by forming IT training centers. These centers provide courses and other

¹ IBGE/IBOPE September 2000.

training in IT at very low cost to residents of Rio's poor neighborhoods known as *favelas*. In particular, they address the needs of local micro-enterprises and of the young or unemployed seeking to enter the job market in this growing sector. Since 1995 the three organizations have served a total of 65,000 students and have opened 208 IT centers, of which 84 are in Rio. While focusing on the same type of target market, each organization uses somewhat different business models, in particular the relationships they form and maintain with the centers.

- 2.4 At present, the capacity of these organizations to open and maintain centers does not keep up with the demand. Some centers are also more successful and financially more sustainable than others. Success is measured by their ability to display a track record of being dynamic-growing and maintaining a high volume of students or other customers. Although some centers have created innovative new products and services, most offer little beyond introductory computer courses and therefore provide few reasons to attract and keep customers.
- 2.5 To ensure self-sustainability and improve the quality of service, while keeping up with the demand, Viva Rio, CDI and Rio Online have formed the partnership "Rio Digital" and presented to the Bank a diagnostic study and a project proposal. The project proposal approaches these goals by focusing on strengthening 12 "pilot" centers in Rio de Janeiro with services that better meet the growing demand for special IT training. The centers were selected on the basis of five criteria: entrepreneurial leadership, number of students, market size, cost recovery and location. The project would provide successful, sustainable models for forming other centers both in Rio and beyond.
- 2.6 The Bank has given support to the IT sector in Rio de Janeiro dating back to 1997 with Viva Rio's project Viva Cred, a microfinance institution which provided vouchers for IT. Currently, Rio Online is working in association with the *favela-bairro* project, Urban Improvement--Rio de Janeiro II (1241/OC-BR), and has created 27 centers in these neighborhoods.
- 2.7 The proposed project is on target with the Bank's strategy for IT as stated in OP-711. This policy states that one area of action is "lending to increase the access of low income citizens to the empowering elements of the information revolution." By supporting this project, the Bank will:
 - (i) Foster and help consolidate the growth of a successful training strategy for IT oriented towards youth and microentrepreneurs; and
 - (ii) Evaluate different experiences in bringing IT to low-income urban areas, provide them with exposure to a wider audience, and aid in their replication in similar projects and in urban development programs².

² Increasing the employment and income of residents in projects such as the *favela-bairro*, contributes to the physical and social inclusion of the *favela* in society.

III. PROJECT BENEFICIARIES

- 3.1 The direct beneficiaries of Rio Digital are micro-entrepreneurs, the unemployed and the young residents of *favelas* who will be working at, or taking courses in the 12 centers selected for the project. They would comprise: (i) the 36 instructors and administrators (three per center) who will learn how to better manage the centers and to provide better services; (ii) the micro-entrepreneurs who will have access to IT services and training, to improve their business horizons; and (iii) the estimated 5,000 people³ who will enroll and complete the courses given at the centers and subsequently benefit from this training in the labor market. It is estimated that some 10% of the residents of the areas where the centers are located can benefit directly and indirectly by the services these centers could provide.

IV. PROJECT OBJECTIVES, COMPONENTS AND ACTIVITIES

- 4.1 The project would have as its principal objective increasing the access of residents of the *favelas* of Rio de Janeiro to Information Technology and therefore raise the number of small businesses, create new job opportunities and employment prospects and raise incomes. This would be accomplished by strengthening 12 pilot centers which provide training, access to computers and the internet, and an array of other IT-related services to residents of *favelas*, including microentrepreneurs, youth, and the unemployed, with special emphasis on developing entrepreneurship. In the process, the current business models for starting and operating sustainable centers would be optimized, making them attractive for replication in others areas of Brazil and Latin America and the Caribbean (LAC).
- 4.2 In particular, the project would have the following goals:
- (i) **Sustainability.** Ensure that Rio Digital and the centers of information technology become financially self-sustainable;
 - (ii) **Impact.** Increase the impact of Rio Digital by meeting the needs and demands of the trainees, introducing new products, increasing the scale of operation, improving the product quality, instituting quality control and an oversight system, and develop partnerships with the private sector; and
 - (iii) **Scale.** Set the stage to reach out to an increased number of favelas through the installation of new centers for IT.

³ Number to be finalized during project preparation.

- 4.3 To reach these project goals the following four components are deemed necessary:

Component 1, Institutional Strengthening: Evaluate the different models of the three organizations which comprise Rio Digital, as reflected in a representative sample of 12 existing IT centers, drawing lessons and parameters for their sustained success. Strengthen these centers and corresponding networks by providing: (i) training for managers and staff in financial and management, recording keeping, price-setting, customer service, etc.; (ii) intensive IT training for teaching staff; and (iii) technology and equipment upgrading.

Component 2, New Product Development: Develop new services for attracting and keeping customers, such as employment-relevant courses at various levels (making business cards, designing advertisements, creating websites, etc), Internet access and possibly e-commerce. This component will include a market-demand study to assess the potential for each type of service and course, considering requests from and partnerships with the private sector.

Component 3, Packaging: Develop a package or methodology to systematize management, service quality and growth, and improve socioeconomic impact. This will rationalize the process in which centers are opened, maintained, and operated successfully. It will spread the costs of maintaining a solid network structure to support and assist all centers.

Component 4, Partnering: Form partnerships with the private sector in the areas of computer and equipment donation, special training programs⁴, employment opportunities, and others. Rio Digital will work with businesses to align the training courses and certification programs with the skills needed in the local workforce.

V. PROJECT COSTS, FINANCING AND EXECUTION PERIOD

- 5.1 The project amounts to US\$1,446 million of which 40% will be provided as a counterpart by Viva Rio and Cisco Systems, which has pledged a contribution of US\$204 thousand. Table I presents a preliminary budget allocation for the project by component. The execution and disbursement periods will take 36 and 39 months, respectively.

⁴ For example, the Cisco Networking Academy.

Table I
Rio Digital's preliminary budget by component
(US\$)

Component	Amount MIF
1. Institutional strengthening	\$295,000
2. Product development	\$120,000
3. Packaging	309,000
4. Partnering	76,000
Annual audit & Project evaluation	\$60,000
Total MIF	\$860,000

VI. EXECUTING AGENCY

- 6.1 Rio Digital is an ad hoc association of CDI, Rio Online and Viva Rio. Due to an agreement between the three organizations, Viva Rio would be the project's Executing Agency and provide the counterpart funds for the operation. Viva Rio is a non governmental organization formed in 1993 which has focused on creating projects to improve the living situation of the people of Rio de Janeiro over the long-term. It maintains a special focus on training and on youth, and over 25,000 people have graduated from its training projects. Currently, Viva Rio runs 25 projects in the areas of education, community development (Viva Cred), human rights and public safety (youth training, conflict mediation and free legal assistance). Since 1998 Viva Rio's "IT Club" has started 29 computer centers in *favelas* where 6,000 people have taken courses.
- 6.2 CDI was started in 1995 in Rio de Janeiro and developed the first IT center in a *favela*. Five years later, CDI has created 152 centers and continues to expand to other states in Brazil as well as to Colombia, Uruguay, and Mexico. The CDI network employs over 300 instructors, 200 volunteers and owns over a thousand computers. CDI has 14 private-sector partnerships, including IBM, Microsoft and Exxon, as well as 22 partnerships with other organizations such as universities and other NGOs. Currently, a technical regional cooperation is being considered at the Bank to strengthen CDI and replicate its experience in other countries of the region.
- 6.3 Rio Online was started in 1997 by the municipal government of Rio de Janeiro, through its secretariat of labor, and implements its IT programs with private-sector partners (Microsoft, Banco do Brasil and Axcel books). Rio Online is associated with the *favela-bairro* project that is cofinanced by the Bank.

VII. EXPECTED RESULTS AND JUSTIFICATION

- 7.1 This project will improve the skills of young professionals, micro-entrepreneurs and residents of *favelas*, giving them access to a more specialized and growing

labor market in the IT sector, and allowing them to raise their incomes. The support of the MIF will be oriented to 12 centers, which present a potential for growth and for providing new courses and services. These offerings will be tailored to respond to the demand of companies working in IT as well as to the demand of new micro-enterprises operating out of the *favelas*. These results will also reinforce the sustainability of the other actions taken by the Bank in these low-income areas, such as the urban-upgrading projects.

VIII. MAJOR ISSUES AND RISKS

- 8.1 While the growth and demand for the IT centers is impressive, the real economic impact on the graduates and on the *favelas* has not been ascertained. From the point of view of socioeconomic impact and entrepreneurial development, the project needs to determine whether these programs succeed creating microenterprises and in improving the conditions of the target groups.
- 8.2 The proposal submitted by Rio Digital gives few details on types of jobs and number of positions that need to be fulfilled in the private IT sector. This demand needs to be studied in more detail to better couple training with employment prospects. The courses' contents and new services, e.g., e-commerce and internet access, need to be evaluated as to demand, impact over beneficiaries, and feasibility of implementation at this stage.
- 8.3 The price structure for each type of course needs to be evaluated considering both willingness-to-pay and the financial requirements of the centers. Also, due to the importance of subsidies in the project, it is necessary to establish a mechanism for targeting beneficiaries (both instructors/managers and students).
- 8.4 The administrative and operational structure of the centers (the business model) will have to be evaluated and optimized considering the number of students and type of services provided. Furthermore, to assess the progress and success of the centers, performance indicators will have to be established considering the different operational models used by the three organizations.
- 8.5 The role of established private IT firms in providing equipment and special assistance to the centers and to Rio Digital, needs to be delineated and formalized.
- 8.6 The project will need to be coordinated with the Regional Technical Cooperation being prepared by INT for CDI in the first quarter of 2001. Since CDI's model is being proposed for replication in other LAC countries, it might be advantageous to evaluate the comparative merits of the other two approaches taken by Viva Rio and Rio Online.

IX. PROJECT PREPARATION TIME

- 9.1 To complete the preparation of the operation, the project team needs to develop and better conceptualize Rio Digital's project proposal. To this end, the team will have a mission to Rio de Janeiro, visit the proposed centers and meet with the participating organizations, beneficiaries and relevant private sector firms. Presentation to the Donor's Committee is expected for the end of the first quarter of 2001.