

## SOCIAL ENTREPRENEURSHIP PROGRAM

### PROJECT SYNTHESIS

1. **Country:** Ecuador
2. **Project Number:** EC-S1018
3. **Project Name:** Franchises for Rural Pharmacies in Ecuador
4. **Executing Agency:** FARMAENLACE CIA. LTDA.
5. **IDB Unit:** Multilateral Investment Fund (MIF)

**6. Financing Amount and Source:**

	<u>BID</u>	<u>Local</u>	<u>Total</u>
Reimbursable financing:	US\$990,000	US\$495,000	US\$1,485,000
Non-Reimbursable Technical Cooperation:	US\$250,000	US\$160,900	US\$410,000
<b>Total:</b>	<b>US\$1,240,000</b>	<b>US\$655,900</b>	<b>US\$1,895,900</b>

**7. Goal and Purpose:**

The project's goal is to help improve the quality of life of rural communities in Ecuador. The purpose is to establish a franchise model (pharmacy network) to supply quality pharmaceutical products and services in rural communities in Ecuador's central-southern highlands and southern coastal area.

The proposed model will help generate economic opportunities for rural franchised microentrepreneurs and create jobs to cover the pharmacies' staffing needs. This project is the first formal initiative for a national pharmacy network to provide quality pharmaceutical products and services at affordable prices in rural Ecuador, and the first SEP project to promote rural pharmaceutical services.

**8. Description:**

To achieve the objectives, two components will be financed: a reimbursable financing component for US\$1,485,000 (IDB US\$990,000; Farmaenlace US\$495,000) and a nonreimbursable technical-cooperation component in the amount of US\$410,900 (IDB US\$250,000; Farmaenlace US\$160,900). Farmaenlace Cia. Ltda. will execute the project, provide the required counterpart contribution, and assume the loan from the Bank.

1. ***Reimbursable financing component***

The resources will be used to establish a fund for direct loans to cofinance the investment required on the part of rural entrepreneurs (franchisees), since opening a new point of sale requires an average investment of US\$45,000 per pharmacy (US\$30,000 in IDB resources and US\$15,000 in Farmaenlace resources). Farmaenlace will use these resources to extend credit to 33 rural entrepreneurs interested in opening a pharmacy under the franchise

method, thus creating a permanent, sustainable point of sale for quality medicine in sufficient quantity and at affordable prices.

Farmaenlace will use the following criteria to identify the project intervention areas: (i) communities of fewer than 35,000 inhabitants, with a geographic distribution that makes it possible to optimize the logistics costs; (ii) acceptable level of social organization in the local communities; (iii) high incidence of endemic diseases; and (iv) poverty levels higher than the national average.

To select the communities and the local strategic partners who will manage the franchises, i.e. the direct project beneficiaries, the following criteria will be considered: (i) preferably women; (ii) high school graduates at a minimum; (iii) monthly income of less than US\$500; (iv) respected in the community; and (v) passed business and personal tests aimed at identifying entrepreneurial individuals capable of building a business. Farmaenlace has developed a method to select business partners that could be adapted to select franchisees in rural areas for this project.

Under a renewable franchise contract Farmaenlace will provide the following to rural franchisees: training, administrative and operational assistance, as well as ongoing advisory support to manage and operate the franchise, following a cost-covering and service-generating approach. Thus, a commission will be established for the rural franchisee (pharmacy owner) and support will be provided to build the business so as to raise the family's standard of living. Local residents will be hired to work at the pharmacies, thus generating new sources of formal employment in small rural communities in Ecuador.

Farmaenlace is also experienced in managing credit to third parties: the company has a Loans and Collections Department working with its distribution business clients. It has the know-how to manage contracts, systems, credit evaluations, monitoring mechanisms, etc. This experience will allow Farmaenlace to manage its portfolio efficiently, by deducting the franchisees' loan payments from the commissions it pays them.

## **2. *Non-reimbursable Technical Cooperation component***

The Bank's loan will include a nonreimbursable technical-cooperation component of US\$250,000 plus the Farmaenlace local counterpart contribution of US\$160,900. This component will support three main areas: (i) strengthening and coordination of local capacities; (ii) systematization and dissemination of results; and (iii) project administration.

For purposes of strengthening and coordinating local capacities, the resources will be used primarily to: (a) build rural franchisee business capacities through a microentrepreneur training program; (b) adapt the methods to select partners, implement franchises, monitor the portfolio, etc., originally developed for urban franchisees, for use with the rural franchisees targeted by the project; (c) conduct market studies in target communities; and (d) conduct preventive health care campaigns<sup>13</sup> in coordination with other public and private organizations such as the Ecuadorian Red Cross, *patronatos* [associations], community health clinics, etc., seeking to channel products and services to the target communities. Most of the Bank's resources for this component will be used to finance the preventive health campaigns. The sustainability of these activities is based on establishing alliances with local partners expected to remain after project conclusion.

The systematization and dissemination of results component will document the project's results and disseminate them to strategic audiences through sharing events among

franchises, participation at two regional events to disseminate the model, and publication of a case study.

Lastly, the project administration subcomponent will finance activities related to: (a) hiring a project coordinator; (b) hiring a Bank-eligible audit firm to review the financial statements and conduct an ex post review of disbursements and procurement; and (c) preparing a project baseline and conducting the project's final evaluation. The Bank and Farmaenlace will share equally most of the expenses covered by this subcomponent. Bank resources will not be used to finance Farmaenlace's administrative or operating costs.

## **9. Beneficiaries:**

The project will directly benefit 33 rural franchisees, mostly women earning less than US\$500 a month, who will receive training, administrative and operating assistance, and regular advisory services on the administration and operation of a franchised pharmacy with a sustainable business model. By the end of the execution period, the project is expected to have generated at least 22 new formal jobs in small rural communities in Ecuador. In addition, it is estimated that by the fourth year, each pharmacy will have hired at least two employees, which means the project will help create some 66 new jobs. At least 20,000 rural families throughout the country are expected to have access to good quality medicine at market prices, and to benefit from preventive health campaigns.

## **10. Expected results and benefits:**

The following outcomes are expected by the end of the project: (i) at least 33 new franchises operating as described above, and Farmaenlace's commitment to continue opening at least four new pharmacies a year in rural areas; (ii) at least 22 new jobs generated in small rural communities; (iii) 20,000 families able to access a significantly improved medicine supply service at better prices; (iv) 10,000 people assisted by the health campaigns carried out close to the new points of sale; (v) a service user satisfaction rate above 85%;<sup>18</sup> and (vi) a successful model to generate a new business in rural areas. The direct benefits from the project will be captured primarily by small rural entrepreneurs whose net earnings will increase by about US\$575 per month at the end of the second year of project execution and are expected to continue growing<sup>19</sup> as the business develops over time.

What is more, as nonbank correspondents outfitted with a Banco del Pacífico Puntomático service point, the franchises will also provide special payment services enabling customers to pay utility bills or receive funds from the Human Development Bond cash transfer program, among others. Such services will have a positive impact on rural communities through a reduction in transportation cost and time needed to complete transactions and the progressive access to modern technologies.