

PROJECT NAME: Developing Business Format Micro-franchising Models for Low Income Populations
PROJECT NUMBER: CO-M1082

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I. PROJECT SUMMARY

Franchising is widely recognized as one of the most effective mechanisms for rapidly scaling a business by a cost-efficient and low risk method of growth to franchisors, while offering incentives for franchisees. “Micro”-franchising is a business and social development strategy being increasingly adopted in emerging markets, which leverages the franchise’s core feature: systematized processes and procedures of a proven business model and/or brand are licensed to an individual (micro-franchisee/micro-entrepreneurs) from the poor and low-income populations at a relatively low investment amount; then micro-franchisees, in ownership capacity, enter into a contractual relationship with the franchisor, which includes regular support by the franchisor, thus generating economic and social impacts in a way that is beneficial to both the franchisor and the micro-franchisee. Recently a number of Impact Investors have seen micro-franchising as a potential addition to their portfolio as it may lower risk and create jobs. However, today in Colombia, an increasing number of private and public institutions are applying the concept of micro-franchising and its emerging methodologies to very different purposes, which is resulting in confused policy debates. These unaligned interests may be a cause for not catalyzing enough economic and social impact, as they are unable to take collective actions.

The proposed project will contribute to closing the current knowledge gap surrounding micro-franchise – particularly of “business format” micro-franchise.¹ This will be achieved by identifying franchisors interested in: (i) implementing micro-franchising to serve the poor and lower income populations; (ii) building capacity for potential micro-franchisees; and (iii) capturing the knowledge to maximize the balanced benefits in both economic and social impacts through franchise businesses. In view of the complexities of those inter-related issues - low awareness of micro-franchising, risk-averseness among entrepreneurs, the need for capacity-building for micro-franchisees, and the scarcity of finance, the project will focus on developing a marketplace for micro-franchising in the form of an hub/platform to support franchisors and micro-franchisees by aligning the incentives of both parties. Moreover, given high interests from many supporting institutions, the platform will serve as an effective way to consolidate the current efforts, and accelerate the development of this nascent industry. The project will complement the “Regional Facility for Promoting the Economic Empowerment of Low Income Population through Microenterprise Distribution Networks” (RG-M1234), which is currently in execution, as the Facility focuses on “distribution franchising”, and its

¹ There are two main methods of franchising: (i) **distribution franchising**; and (ii) **business format franchising**. The former is the process of using the name of the franchisor to deliver products and services to customers for a prescribed location and time. The latter is where the franchisor develops a **brand and operating system** for the business and licenses that to the franchisee who then delivers products and services using the name and operating system of the franchisor.

regional resource center is expected to be further strengthened by the knowledge products generated by the proposed project.

II. PROJECT CONTRIBUTION TO THE ACCESS FRAMEWORK

This project will help achieve the MIF's mandate to reduce poverty by creating new businesses for poor and low-income populations by linking them to value chains. The project contributes to the "Linking Small Firms with Value Chains" Agenda.

III. INFORMATION

COUNTRY:	Colombia	TECHNICAL COOPERATION:	\$1,320,000	60 %
		INVESTMENT:	\$ 000,000	
		LOAN:	\$ 000,000	
		TOTAL MIF FUNDING:	\$ 1,320,000	
LOCATION:	Bogotá, Medellín, and Cali	COUNTERPART:	\$ 880,000	40 %
EXECUTING AGENCY:	Corporación para El Desarrollo de las Microempresas (PROPAIS)	CO-FINANCING (IF AVAILABLE):	\$000,000	00 %
ACCESS AREA:	Access to Markets and Skills	TOTAL PROJECT:	\$ 2,200,000	100 %
AGENDA:	Linking Small Firms with Value Chains	NUMBER OF DIRECT BENEFICIARIES:	80 micro-franchisees, 320 employees, 8 franchisors, 200 potential micro-franchisees	
COMPLEMENTARY BANK OPERATIONS (IF ANY):		NUMBER OF INDIRECT BENEFICIARIES:	3,000 (household members of micro-franchisees)	
		QED SCORE:		

IV. PROBLEM DIAGNOSIS

Problem: The percentage of the Colombian population living below the national poverty line is 34%. Adding to this burden, because there is a 10% general unemployment rate and almost 25% youth unemployment rate, many Colombians will have no other choice but to be self-employed. One of the findings of the Global Entrepreneurship Monitor (GEM) is that innovation does not figure within the entrepreneurial landscape of Colombia, thus a majority of new businesses are unable to go beyond a subsistence level. Recent study of the World Bank² confirms such scarcity of innovation. This risk of being stuck to subsistence level entrepreneurship becomes critical in case of vulnerable and low-income populations; if the business goes wrong, it cannot only lose their investment, but fall swiftly under the poverty line. Therefore, the main problem that the project will attempt to solve is

² Latin American Entrepreneurs: Many firms but Little Innovation. World Bank, 2012

subsistence level of micro-enterprises, which should be addressed by helping develop growing businesses.

La Corporación para el Desarrollo de las Microempresas (PROPAIS) in Colombia conducted an extensive survey in 2012 in three main regions- Bogota, Cali and Medellin, and found out that there exists a clear demand for a lower-risk form of entrepreneurship, as well as an effective method for growing a business for owners, confirming the emerging recognition of micro-franchising as a tool to address the above-mentioned problem.³

The foundation of micro-franchising is squarely based on traditional franchising involving: (i) the franchisor who lends his trademark or trade name and a business system; and (ii) the franchisee who pays a royalty (and often an initial fee) for the right to do business under the franchisor's name and system- a system sustained by mutually compatible value propositions: (a) the security of a proven business model, training and support, as well as brand/marketing power, in exchange for which some of his or her independence is given up to comply with the established processes and procedures; and (b) the maintenance of the business system by continually investing in the value of trade name. However, franchising is not for everyone, nor all business models are “franchiseable.” In fact, while franchise systems have been identified in around 80 industries, about 50% of them are concentrated in only ten industries; the International Franchise Association reports that 18% of all franchise systems are fast food while 11% are retail. Furthermore, some well-known American brands like Starbucks, Red Lobster and Olive Garden do not franchise, as they have opted to grow through their own subsidiaries instead.

As for the potential utility of micro-franchising for the poor and low-income populations, although there is great interest among civil society organizations and government agencies, there is no consensus about what micro-franchising is or what role it could play as a development tool. As there is still no codification of franchising in Colombian law, deeper understanding of the meaning – beyond examples like McDonalds – is still rare among business owners and the population at large.⁴

Even though high-profile examples of successful franchises are found, franchises are not always appropriate or viable; a large proportion of new franchisors fail. It is estimated that of the new franchise systems created in the US each year, 25% cease to exist in less than a year and 40% fail within its fourth year⁵. However, the current empowerment programs through micro-franchising focus disproportionately on their potential benefits for the low-income population, while they may gloss over the real business risks involved in franchise operations. Furthermore, in the disproportionate focus on aiding the low-income populations, the needs of the franchisors are not being adequately addressed, putting strain on their business model and its entire business sustainability.

While the benefits of the franchisor’s network and business acumen can be a powerful tool in helping empower micro-franchisees⁶, franchising is still in its early stages and micro-franchising is even more recent in Colombia. Thus, many micro-entrepreneurs do not appropriately allocate limited resources

3 M. Sabino, “The diagnostic study of the micro-franchising environment in Colombia”, 2013

4 The US is the undisputed leader in franchising across the world. In 1979, the U.S. Federal Trade Commission created the Trade Regulation Rule on Franchising, which made it a requirement for the franchisor to create a disclosure document that covers all continuing commercial relationships, setting out clear descriptions for franchising as well as for the roles of the franchisor and the franchisee.

5 Shane, “From, Ice Cream to the Internet: Using Franchising to Drive the Growth and Profits of Your Company”.

6 Lehr, “Microfranchising at the Base of the Pyramid”. Acumen Fund, August, 2008

where micro-franchise is viable or conversely enters into franchises without a solid rationale. On the other hand, while supplying ‘business-in-a-box’ (i.e. proven business method) plus ongoing branded products, franchisors are often unable to control site selection, pricing, sales territories, hours of operation, etc. This ironically forces some potential franchisors to become too cautious about engaging in micro-franchising.

Causes: It has been argued that a structural barrier for the progress of low-income people is their networks – they remain poor because **they have “poor” networks**. In their community, the poor may not have the access to suppliers, service providers, partners, brand-builders, and customers. In addition to that, not everyone is apt for becoming an entrepreneur, thus, the poor and low-income populations need to be forcefully “creative”, which constitutes “entrepreneurial burden”.

Secondly, the poor and low-income people tend to have **inadequate access to skill-up trainings**; they also tend to have **lower levels of general business experience** and run informal businesses. Because of this lack of education and experience, micro-franchisee requires a significant amount of support from the franchisors. Although the franchise model allows the franchisor to grow without much overhead investment and compliance mechanisms that more tightly controlled networks call for, counterfeit (stealing proprietary business brands/business models) would be a particular downside in economies that have such a large informal sector as Colombia does.

Finally, as is the case with any start-up, the **options for financing are limited**. With track records of a few years of operations, franchisors around the world recognize that they have to go beyond their core competency to provide financing or serve as guarantors. In Colombia, this is a serious problem; Potential franchisors do not wish to move out of their core competency, or simply do not want to take on the additional risk of offering funds or guarantees, while micro-franchisees are unable to obtain enough credit.

Knowledge Gap. Micro-franchising, if applied correctly, can be a win-win for businesses who want to scale and for low-income people who seek low risk solutions to generate sustainable income, even with low capital, little education or business experience. In order to define the current knowledge gap, it is important to unpack several concepts including what “micro” refers to and what “franchising” means, and how key elements of traditional franchise can be applicable to micro-franchise.

- (i) What is the lower limit for micro-franchise? “Micro” generally refers to low cost investment and low-income micro-franchisees. However, the size of the required investment, as well as the profile of a potential micro-franchisee (generally poor and low-income population), are unknown.⁷ It would also be useful to check the concept’s validity for micro businesses against the key successful feature of traditional franchising such as: (a) the necessity of a physical area to serve customers; (b) the importance of a brand name value in the market; (c) the ease of standardization and replication of the model; (d) the need for a labor-intensive model; and (e) relatively low-risk and low cost outlets.
- (ii) How much support do franchisors need to provide for micro-franchisees? The franchisor trains the franchisees, gives them use of the brand, and provides direct links to its supply

⁷ While “micro” can describe the customers’ low purchasing power that can buy the products or services being sold from the micro-franchisee, some product and service franchises can often serve several levels of the pyramid, not just the poor and low income populations.

chain. By buying into a proven, systematized business model, along with the franchisor’s networks, sales/marketing channels and knowledge, the risks for the micro-entrepreneur are reduced, while he/she is protected from market fluctuations. However, several anecdotes demonstrate that franchisors in micro-franchise often have to get involved much beyond the levels of a traditional franchise, including provision of basic business training - apart from the specific training needed to be part of a franchise system.

(iii) To what extent is the promotion of “business format” franchise viable for micro-franchising?
 The micro-franchising projects so far are concentrated in “distribution (product) franchise” (e.g. Coca-Cola) rather than “business format franchising” (e.g. Subway). In the business format franchise, uniformity and quality in the operating system is critical. There should be a contractual limit regulating discretion of resources with which the franchisee has the right to operate. This limit (or some discretion) could weaken (or further strengthen) some of the key elements that make traditional franchise successful, such as: (a) the need for high local market knowledge; and (b) the need for production and distribution limited to a small geographic location. It is thus important to examine how compatible the principles of franchising (particularly business format franchising) can be with a development strategy geared towards utilizing the competitive advantages of franchisees such as local community knowledge.

Classify the problem in one or more of the following categories that most apply:

Market failure
 Institutional weakness
 Policy weakness/failure
 OTHER:

X	Skill deficit
	Collective action problem
X	Lack of appropriate technology
	<u>Explain as needed</u>

X
X

Beneficiaries: The project is directed towards 80 micro-enterprises committed to starting a new franchised business that would generate a total of 400 new jobs (80 micro-enterprise owners and 320 employees of the micro-franchisees). These 80 micro-enterprises are connected to eight franchisors that are likely to be growing small/medium-sized firms, having at least two years of operation.⁸ The main target geographic areas will be the regions of Bogota, Cali and Medellin.

V. PROJECT DESCRIPTION

The project’s objective at the impact level is to contribute to generating sustainable income for poor and low-income populations in Colombia. The objective at the result level is to help micro and small businesses scale effectively through micro-franchising by developing a marketplace, addressing the knowledge gap surrounding the micro-franchise concept. This project will complement the regional program in execution “Regional Facility for Promoting the Economic Empowerment of Low Income Population through Microenterprise Distribution Networks (RG-M1234); the Facility focuses on “distribution franchise”, while the proposed project will focus on “business format franchise”. It is important to note that the franchisors to be targeted in this project will include those growing small/mediums-sized enterprises that would be interested in adopting micro-franchising as a strategy

⁸ Each of eight micro-franchisors is expected to develop an estimated average of 10 micro-franchisees, and each micro-franchisee is expected to generate 4 employees.

for business expansion and scale-ups, and that the project's emphasis is to create knowledge products that can fill the current gap such as common definition for micro-franchising, thus making business operations easier to start, scale and sustain both for franchisors and franchisees.

Proposed Model. Given the newness of the concept in Colombia, and considering the lack of a legal framework, deficient capacity among entrepreneurs, and insufficient financing, the project will:

- (i) Promote awareness around the concept of micro-franchising, developing a consensus among a wide range of the stakeholders on the meaning of micro-franchising with a more nuanced understanding of what types of businesses can and should franchise;
- (ii) Build capacity for both franchisors and micro-franchisees by offering training (management, market analysis, processes and procedures in setting up or buying a franchise, resource planning, innovation, etc.) and certification options to assure quality and reduce information asymmetry, partnering with a certifying body such as B-Lab⁹. The increased credibility conferred on the parties as a result of certification could play a significant role in facilitating the process as well as making it more efficient;
- (iii) Provide business mentoring through a network of mentors (those who have successfully franchised) for selected micro-franchises, once the businesses are under operation, whereby the new franchising companies could be paired with them, offering a learning opportunity;
- (iv) Develop a transparent clearinghouse/marketplace bringing potential franchisors and potential micro-franchisees together so that they may enter into business with one another. This platform will offer the following specific services: (a) opportunity identification to distill business ideas emerging in the current markets; (b) online portal that provides a searchable database of information on micro-franchising (market analysis, franchising processes and procedures), entrepreneurs certified under the process established (see above (ii)), and basic advices on legal, accounting, financing and tax, etc.; (c) tools for micro-franchise development including *diagnostic tests* to assess capabilities and evaluate their business health, and *monitoring tool* to assess their progress and compare themselves to similar businesses in the database; (d) business roundtables organized as meet-ups of both parties who have advanced in the business development, and are looking to close the deal; (d) acceleration offered to those who are most qualified in terms of projected business and social performance indicators (such as economic rate of return), more selective assistance focusing on rapid scale-ups; and (e) facilitation of financing for micro-franchising to connect with all the possible channels of financing for both franchisors and micro-franchisees, including campaigns to reach financial partners, and development of new financial products such as guarantees or micro-leasing.
- (v) Develop knowledge products that can fill the existing gap though: (a) research to identify good practices and benchmarks of micro-franchising across the world as well as in Colombia, analyzing future and current trends on efficiency, innovation and scaling, and local context of commercialization; and (b) development of methodologies to serve as an integrated home grown micro-franchising methodology (in particular for business format micro-franchising).

⁹ B-Lab is a not-for-profit entity that evaluates and certifies a business's commitment to generating more than financial return; In Colombia the movement to create its Latin American version "Sistema B" started in 2011, which is expanding rapidly.

A vehicle like the platform described above is expected to create a community of business owners who desire to scale up their enterprises, as well as low-income people who would like to become low-risk entrepreneurs. Apart from those interested in buying or selling micro-franchises, the marketplace will be useful for the general community that can interact with a variety of stakeholders. Besides, it will harness the franchisors' access to the network of the poor and low income populations, which should help it achieve economies of scale. It will also help construct a database hosting micro-franchises that passed through a qualification process; disclosed information of which will allow for the efficient business transactions, increasing the credibility of the model as a whole. Moreover, the marketplace will serve as a forum to attract potential financial and in-kind partners to support initiatives.

Component 1: Awareness and fomenting actions

The activities of this component will include the organization of events to disseminate key information on the micro-franchising concept and good practices. In particular the objective is to help understand: (1) what kind of processes and procedures are necessary to franchise a business; (2) what skills are necessary for successful micro-franchise entrepreneurs; and (3) what franchising entails in practice (for franchisors and micro-franchisees). The activities will be carried out in three major cities (Bogota, Cali and Medellin).

Component 2: Capacity building for micro-franchises

In building capacity for both franchisors and micro-franchisees with an emphasis on the latter, the activities under this component constitute training and certification options for both groups. The key disciplines include general business training as well as market analysis for specific targets. Other topics include the processes and procedures in setting up or buying a franchise, resource planning, product/service innovation, and relevant legislation. In order to follow up with the initial training, business mentoring for selected franchising systems will be provided.

- (i) Certification for franchisors as well as for micro-franchisees assures quality, and reduces information asymmetry. The criteria for certification will be designed under this Component. Partnering with a certifying body such as B-Lab¹⁰ is being contemplated.
- (ii) Business mentorship and peer learning network. After finishing the trainings and once the business is under operation, questions may arise regarding the process of operating a franchise. For this purpose, a business mentorship network will be set up. In addition, franchising companies could be paired with companies who have successfully franchised in other sectors, offering a learning opportunity.

Component 3: Development of micro-franchise marketplace

In order to bring potential franchisors and potential micro-franchisees together so that they may enter into business with one another, the activities of this component will help establish a combination of a virtual platform and a physical hub, and facilitate interaction and business transactions:

- (i) Opportunity identification. This activity will distill opportunities from the research conducted (Component 4) that can be identified according to the current needs in the market; there may

¹⁰ B-Lab is a not-for-profit entity that evaluates and certifies a business's commitment to generating more than financial return; In Colombia the movement "Sistema B" started in 2011, which is expanding rapidly.

exist gaps in the provision of much-needed services such as health and education, whereby micro-franchising would make sense given the lack of access (with high costs) to those services;

(ii) Development of online portal.

(a) Information repository: This repository is an easily searchable database that would offer information on micro-franchising, and the database would capture and host qualified entrepreneurs interested in micro-franchisees. The repository will include information on market analysis, franchising processes and procedures, and basic advices on legal, accounting, financing and tax, as well as success and risk factors, training and capacity-building options.

(b) Online tools for micro-franchises: The tools would include: (1) *Diagnostic tests* to assess capabilities and evaluate their business health through a checklist including management practices, sales, and financing options suitable for the business. The results would be compared to the metrics of other micro-franchises, proposing potential action steps to improve sustainability; and (2) *Monitoring and evaluation tool* to offer a checklist of key indicators so that they can assess their progress as well as compare themselves to similar businesses in the database. Keeping track of the scores of all the test takers would make it easy to measure progress.

(iii) Business roundtables. This activity will organize specific business meet-ups of people who have advanced in the business development, particularly for both parties that have undergone the process described above (Component 2) and are looking to close the deal.

(iv) Acceleration. This activity will help franchisors develop roadmaps that would detail all the necessary processes as well as the actions required to create a rapidly growing enterprise. This would typically include a checklist of skills needed, and the trainings that would provide these skills. Furthermore, selective assistance -focusing on rapid scale-ups and long-term sustainability- will be offered to those who are most qualified and likely to have the highest impact (in terms of projected economic rate of return).

(v) Facilitation of financing for micro-franchising. This activity will help fill the financing gap by consolidating all the possible channels of financing for both franchisors and micro-franchisees, considering suitability for each. It would include: (a) campaigns to reach potential financial partners – banks, MFIs and cooperatives; and (b) development of new financial products to be created jointly with financial partners such as guarantees or micro-leasing.

Component 4: Knowledge Management

The creation of a body of knowledge on micro-franchising will set the foundation for a viable definition for the concept – which will clarify the concept and help to attract financiers and business partners alike. This component will complement the marketplace that will be established by Component 3.

(i) Research. The research will identify good practices and benchmarks of (particularly business format) micro-franchising across the world as well as in Colombia. The products will serve to analyze future and current trends in business including benchmarking on efficiency, innovation and scaling, and local context of commercialization;

(ii) Development of methodologies. This activity will develop, based on the research, an integrated and comprehensive home grown micro-franchising methodology, whose anticipated component would be “how to” create: (a) a business format micro-franchising for MSMEs interested in

expanding their businesses; and (b) multiple micro-franchise formats in an existing business by corners, islands, mobile units, etc.

Sustainability

Sustainability is crucial to protect micro-franchising against being considered a subsistence tool. This is why the project seeks to support the systematization of information, methodologies, and best practices, as well as the creation of a community, in which not only micro-franchisors and micro-franchisees, but also other business actors, government, NGOs, universities, financial institutions, investors, consultants, and other supporting institutions are encouraged to interact. This would be most effective in order to attract resources and draw attention to the common goal (importantly, common definition), which would, in turn, increase the project's long-term sustainability.

Lessons Learned. MIF has approved so far six micro-franchising projects (Bolivia, Brazil, Guatemala, Mexico, Suriname, and Paraguay) that are in execution. The preliminary results point to most common micro-franchising formats being distribution franchises, while it seems difficult to develop "business format" franchises. In fact, a recently approved regional project with Citi Foundation (RG-M1234) has an exclusive focus on distribution by well-established anchor firms. In the case of distribution franchise, since the franchisees are not using the franchisor's business model, the franchisor's revenue stream is simply from sales of products to franchisees who then resell them; the scalability of business through business format micro-franchising has not been proven yet. It is worth mentioning that the products generated and lessons learned from the previous MIF operation in Colombia "Growing Micro, Small and Medium Enterprises through Franchising (CO-M1016)" will be incorporated; in particular the diagnostics tools and certification process, as well as the experiences derived from developing on-line information repository (which is no longer functional). Although these tools are not specifically developed for "micro"-franchising, they will be re-examined and adapted to the needs of micro-franchising.

VI. MIF ADDITIONALITY

Non-financial Additionality. Colombia is at a critical juncture with regards to micro-franchising. If some of the actors continue to define the concept ambiguously, or implement programs poorly, this might lead to tarnishing the concept, which could have significant adverse effects on attracting partnerships and funding in the future. With its convening power, MIF can leverage its experiences, networks, and resources to promote and organize actors who have divergent views, and support the growth of this relatively unknown industry. Through this project, the MIF will prove that micro-franchising is an important development tool if used appropriately, addressing the current vacuum of leadership in Colombia.

Financial Additionality. While there are funds to implement the existing proven model, few funding sources are willing to finance the development of new models.

VII. RESULTS INDICATORS

8 franchisors (most likely growing small/medium-sized firms) implementing "business format" micro-franchising models

80 micro-franchisees who start a new business (CRF 210200)

50% of the micro-franchisees who access a credit financial product to start franchise businesses (CRF 210800)

Adoption and Scaling. Close coordination will be pursued with the Bank's private sector arms such as OMJ to identify potential scaling options, particularly when the poor and low-income communities would benefit as a result of the new products and services offered at higher quality and lower prices.

VIII. IMPACT INDICATORS

The impact indicators will be: (i) 50 micro-franchises (or 63%) that continue in operation 3 years after program termination (CRF 330100); (ii) 20% average annual sales growth of micro-franchises created (CRF 330100); (iii) 400 jobs generated as employees of the new micro-enterprises (CRF 330300); and (iv) 20% average annual household income growth of the owners and employees of the targeted micro-franchisees (CRF 310100).

Systemic Impact. The systemic impact will be: (i) the number (at least 10) key public and private actors/institutions changing or applying new concepts and practices based on the project (CRF450300); and (ii) the number (at least 2) of new policies, regulations and/or legal framework of micro-franchising (CRF450200).

IX. BASELINE DATA, MONITORING MECHANISMS AND EVALUATIONS

Baseline. The baseline includes specific numbers (sales, profits, and employment), and in all cases the data will be disaggregated by gender, level of education, age, type of business/sector and other information relevant to the results of the project over time. The project also will work with the Colombian Government's Department for Social Prosperity, which has information on the living standards and characteristics of those families.

Monitoring Mechanisms. Result indicators will be measured with the information system, created under similar projects of micro-enterprise development executed by PROPAIS.

Impact Evaluation. An ex post evaluation on this project will be conducted, as it expects to learn about the effects of different business models within the category of business format franchising, thus filling the knowledge gap described above. The impact evaluation seems to be difficult due to a limited sample size.

X. EXECUTING AGENCY

Executing Agency. The project will be executed by la Corporación para el Desarrollo de las Microempresas (PROPAIS). PROPAIS, created in 1994, is a not-for profit organization with a hybrid character- owned by the government, but managed as a private entity. Partnering with 80 private entities and 10 public organizations, PROPAIS is an umbrella type organization with a mandate to support micro and small firms. It employs 10 permanent staff, while more than 30 professionals work for other projects. The annual operating budget is approximately US\$800,000.

Institution's Core Business. The mission of PROP AIS is to develop and promote public policy related to microenterprise development through strategic alliances with public and private partnerships, including information capturing, designing, and implementing pilot projects. PROP AIS through its principal governmental shareholder, the Ministry of Commerce, Industry and Trade (MCIT), is capable of convening a group of key stakeholders, helping spur and organize the discussion at a national level. PROP AIS has implemented numerous programs focusing on entrepreneurship at the Base of the Pyramid, covering major cities across the country.

Other Partners The project could use information and resources from other key partners involved: SENA; Coomeva; National and Regional Entrepreneurship Networks; Chambers of Commerce; Bancoldex; MFI and cooperatives; MCIT; and existing social entrepreneurship programs, accelerators/incubators such as Ashoka and Compartamos.

XI. PROJECT RISKS

A lack of coherent legal framework would prevent the emergence of a nascent industry of micro-franchising, making it difficult for the franchisor to exert a degree of control, while blurring the requirements of the franchisee to follow the franchisor's method. It would be worrisome that the franchisors, although they could take measures based on the particular contract they signed with the micro-franchisee, would be unable to enforce it even if micro-franchisees did not comply with the franchising agreement. Besides, disclosure needs to be ensured (fees, required investment, time commitment, financial statement and litigation), while lack of the same would fail to protect the buyers of the franchise who in this case are low-income people. If these safeguards are weak, an economic empowerment opportunity may become the reason for the micro-entrepreneurs to fall below the poverty line. The proposed marketplace would enforce disclosure, protecting potential franchisors and micro-franchisees alike.¹¹ The results of the project are also expected to potentially set the stage for a new micro-franchising law.

XII. ENVIRONMENTAL AND SOCIAL ASPECTS

There are no negative impacts on the environment. If any, positive results in the area of social impacts are achieved.

XIII. COUNTRY OFFICE COMMENTS

The Colombia Country Office fully supports the proposal.

¹¹ Other than the US law, the franchising legislation from Brazil and Mexico can be a good benchmark. It requires a document by which franchisee can make an informed decision considering financials, intellectual property, contract expiration, as well as right to support offered to the franchisees, and obligation to buy certain materials from the franchisor.