

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PERU

IMPACT SOURCING AS A TOOL TO GENERATE JOB AND TRAINING  
OPPORTUNITIES FOR LOW INCOME YOUTH IN PERU  
(PE-M1091)

DONORS MEMORANDUM

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## **INFORMATION AVAILABLE IN THE PROJECT TECHNICAL FILES**

Document: 1 Operating Regulations

Document 2: Execution timetable

Document 3: Table of project disbursement milestones

Document 4: Procurement plan

Document 5: Incorporation papers and bylaws of Digital Divide Data

## ABBREVIATIONS

BPO	Business Process Outsourcing
COF	Country Office
DDD	Digital Divide Data
DMO	Data Management Operators
EA	Executing Agency
IS	Impact Sourcing
MIF	Multilateral Investment Fund
M&E	Monitoring and Evaluation

## PROJECT DESCRIPTION

The youth unemployment rate is nearly three times higher than that of adults in Peru, where access to quality higher education that prepares them for professional careers is limited to upper echelons of socioeconomic status. 80% of youth in the top income level segment A with completed high school degrees enrolled in higher education, whereas only 37% of those in the bottom income level segment E completed high school degrees and were able to enroll. The high cost of university tuition often deters highly qualified students to apply or even consider higher education in Peru. Moreover, low quality of the primary and secondary levels of the public education system do not adequately equip students to pass the rigorous university entrance exams, further contributing to the income disparities of enrollment.

This project will provide opportunities for youth from low income and disadvantaged backgrounds to acquire practical, hands-on professional training while pursuing a degree in higher education empowering them to start professional careers and move their families out of poverty. Digital Divide Data (DDD), the Executing Agency, uses an innovative social business model known as Impact Sourcing that closes societal divides by preparing participating youth for professional careers with lasting higher future income, which they would be otherwise unlikely to have the opportunity to pursue.

DDD recruits and trains young people who have untapped talent and motivation to work part-time in the business process outsourcing industry while completing post-secondary education. As a social enterprise, DDD vets higher education institutions for quality, counsels youth employees on career, educational institution and degree program options, supports them with tuition financing help, offers a schedule that enables young people to balance work and study—and pays them a salary for their time at work. DDD's program supports youth to practice and develop confidence using skills they are learning in the classroom and applying on the job. In doing this, DDD enhances the human capital needed to fuel the growth of the local economy and provides a path out of poverty for disadvantaged youth.

The project is expected to provide 500 poor and low-income youth with employment in positions with stable salaries plus an opportunity to develop their IT and professional work skills, to complete higher education with tuition support, and to improve their income, employment opportunities, educational level and quality of life in the long term. DDD's model is to establish a sustainable business which will over time create jobs and opportunity for thousands of youth. Moreover, DDD's work will serve as a model of Impact Sourcing—and sustainable social enterprise—in Peru and in the LAC region, with the potential for widespread replication.

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**I. EXECUTIVE SUMMARY**

<b>Country:</b>	Peru									
<b>Executing agency:</b>	Digital Divide Data									
<b>Beneficiaries:</b>	500 Disadvantaged Youth (in income segments C, D and E) and their direct family members living in urban Lima and rural Peru <sup>1</sup> .									
<b>Financing plan:</b>	<table><tr><td>MIF:</td><td>US\$</td><td>1,600,000</td></tr><tr><td>Counterpart:</td><td>US\$</td><td>1,000,000</td></tr><tr><td><b>Total:</b></td><td><b>US\$</b></td><td><b>2,600,000</b></td></tr></table>	MIF:	US\$	1,600,000	Counterpart:	US\$	1,000,000	<b>Total:</b>	<b>US\$</b>	<b>2,600,000</b>
MIF:	US\$	1,600,000								
Counterpart:	US\$	1,000,000								
<b>Total:</b>	<b>US\$</b>	<b>2,600,000</b>								
<b>Objectives:</b>	<p>At the <i>impact</i> level, the project will contribute to the social and economic inclusion of disadvantaged youth in Peru. At the <i>result</i> level, the project will achieve the financial sustainability of an impact sourcing business model in Peru that empowers disadvantaged youth with workforce experience and marketable skills.</p> <p>The specific components for the project are (i) Develop a comprehensive local business plan; (ii) Launch, recruitment, and training of youth; (iii) Expansion of the model; and, (iv) Knowledge sharing and communication.</p>									
<b>Execution calendar:</b>	Execution Period: 36 months Disbursement Period: 42 months									
<b>Special conditions:</b>	None									
<b>Coordination with other development institutions:</b>	None.									
<b>Social and environmental revision:</b>	This operation has pre-evaluated and classified according to the requirements of the Policy Environment and Safeguards Compliance IDB (OP-703). Since the impacts and risks are limited, the proposed Project Category is “C”.									

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<sup>1</sup> See section VII below for further details on how the number of beneficiaries will increase after project completion, with additional 150 youth cohorts per year thanks to the sustainable social business model.

## II. BACKGROUND

### A. Problem Statement

- 2.1 Despite the recent economic growth of the country, an estimated 441,000 young Peruvians are out of work, and the youth unemployment rate is nearly three times higher than that of adults. Particularly, the opportunities for poor urban and rural Peruvian youth to achieve social inclusion and gain social mobility are very limited, due to the difficulties in both accessing quality higher education that prepares them for employment and careers in the future<sup>2</sup>.
- 2.2 The structure of the educational system in Peru is free and compulsory for primary (6 years) and secondary (5 years) education. However, access to higher education in Peru is greatly determined by income level. 80% of youth in the top income level (segment A) with completed high school degrees are enrolled in higher education, whereas only 37% of those in the bottom income level (segment E) completed high school and were able to enroll in tertiary education. There are a number of reasons for this disparity by income level, including the high cost of university tuition, and the low quality of the primary and secondary public education system that does not equip students to pass the rigorous university entrance exams. Furthermore, poverty in Peru is concentrated in the rural areas, and rural youth rarely have the resources to move to attend university which are located primarily in the major cities, or the resources to live outside the family home while they are in college. Therefore, most poor and low income youth face a lifetime of limited earning potential, since they do not have access to higher education. Completing higher education would provide them with the credentials, skills and knowledge needed to qualify for formal sector jobs that pay a decent wage and increase the family income significantly enough to overcome poverty<sup>3</sup>.
- 2.3 While some public sector interventions are attempting to tackle this issue in Peru, in general the programs are focused on providing partial scholarships, and lack an integrated approach that combines access to university with life skills and job experience, fostering greater job opportunities. The combination of studies and work experience has been deemed effective, according with different studies, in suppressing the high dropout rate that usually prevents low income youth from finishing higher education studies, both by granting the necessary income to support the family needs, and by connecting the youth with a professional network and work experience that motivates his self-improvement.

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2 International Labour Organization. (2012). Young Peruvians speak out on job crisis. Retrieved from [http://www.ilo.org/global/about-the-ilo/press-and-media-centre/news/WCMS\\_177263/lang--en/index.htm](http://www.ilo.org/global/about-the-ilo/press-and-media-centre/news/WCMS_177263/lang--en/index.htm)

3 “Higher Education Decisions in Peru: On the Role of Financial Constraints, Skills, and Family Background” Juan F. Castro, Gustavo Yamada y Omar Arias, December 2011.

## **B. Impact sourcing and DDD model**

- 2.4 Impact Sourcing (IS) is defined<sup>4</sup> as an outsourcing that benefits disadvantaged individuals in low employment areas. In Impact Sourcing services to large companies are provided by individuals who are often overlooked or not considered to have the skill set to fulfill the outsourcing needs of larger corporations. However impact sourcing firms look beyond the traditional supply of outsourcing workers to provide access to new income opportunities to individuals that might not otherwise be employed in this sector. These individuals are typically people who are at a unique disadvantage and lack access to traditional employment. They include those living in rural areas of developing countries or in slums, those without access to tertiary education, and educated individuals in areas of high unemployment<sup>5</sup>. Impact sourcing firms provide employment opportunities to disadvantaged groups while meeting or exceeding their clients' needs by providing their employees with the necessary training and mentoring to provide top quality services.
- 2.5 Despite its potential, IS is still a nascent sector. In order for IS to consolidate and emerge, two conditions need to be met: (i) there is sufficient demand for the services from clients (buyers of the services) who are able to meet their business objectives through outsourcing; and (ii) the business offers a high-quality, competitive and sustainable solution. This means that only by providing competitive services, will IS be able to consolidate and expand. Accordingly, a private sector approach in the form of a social enterprise needs to be established with the basis for an effective, scalable, replicable and sustainable solution in the IS area. A social business can be defined as an organization that applies commercial strategies to maximize improvements in human and environmental well-being, rather than maximizing profits for external shareholders (Ridley-Duff, R. and Bull, M; 2011).
- 2.6 Digital Divide Data (DDD)<sup>6</sup> is a particular type of social enterprise that creates a bridge to employment and higher education for low-income disadvantaged youth by using Impact Sourcing. Even though youth in Peru may recognize higher education as a route out of poverty, many of them do not see it as a viable option due to financial constraints associated with meeting their families' everyday needs. By being gainfully employed in a social enterprise like DDD that has low barriers to entry and provides high levels of soft and hard skills training and support, youth have a stable income to support their families. By working in a business that requires technical and professional skills, they are exposed to potential career opportunities where higher education is critical to entry and promotion.
- 2.7 DDD model starts by identifying and enrolling young people from poor and low income families. The rigorous selection process assesses each youth through skills testing

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<sup>4</sup> According to the Study "*Exploring the value proposition for impact sourcing*", elaborated in 2012 by Accenture and supported by the Rockefeller Foundation.

<sup>5</sup> According to an analysis by the Monitor Group in 2011, Impact Sourcing market has the potential to increase to approximately \$20 billion in 2015, directly accounting for 780,000 jobs and just over 11% of the \$178 billion total BPO market. It is expected that the model may be adopted by local companies in Peru, as well as in the LAC region by other entities interested in creating job and training opportunities for poor and low income youth.

<sup>6</sup> DDD model has been referenced in different publications and studies, including the book "*The earth is flat*" by Thomas Friedman. 2005.



(including math and logic plus speed and accuracy), home evaluations, and interviews to ensure that each trainee is from a family in income segments C, D or E<sup>7</sup>, yet motivated and hard working. After six months of intensive training in computer skills and English, the selected youth enter DDD's work/study program in which they are employed and work on real IT projects, while at the same time studying to earn a degree over the course of 3-4 years. By implementing a work/study environment, the model allows for flexible work schedules in order for the program participants to pursue higher education.

- 2.8 Through the program, DDD will provide significant programmatic and financial support to employees to help them obtain higher education. DDD will assess local universities for quality, select those that represent the best value and work with each employee to determine a course of study, no more than four years in length, which is relevant to DDD's program. Each youth may qualify to receive a scholarship after three months of employment, passing basic skills tests and meeting university admission requirements.
- 2.9 DDD offers a range of content-processing services, including digitization, tagging and eBook conversion for the iPad, Kindle, and Nook, among others; and works with clients that such as academia, corporations, governments, NGOs, publishers and libraries worldwide (such as Ancestry.com, Stanford University, Benetch, among others). Further information of DDD services and clients is available online at the web address: <http://www.youtube.com/watch?v=7sltIqHI71E>. To date DDD's model employs over 1,000 youth and has created better futures for more than 500 program graduates in Cambodia, Laos and Kenya, increasing their life time income opportunities.
- 2.10 Currently, there are no Impact Sourcing models in the LAC region that benefit youth. Peru offers a vast market opportunity for this project because it has a growing economy and is classified as an emerging market for Business Processing Outsourcing (BPO). The introduction of the model in a market with a close time proximity to North America, such as Peru, enables testing of BPO services such as back office and customer call center support. Furthermore, it allows for the development of services that capitalize on demand for bilingual and Spanish language skills, such as digital marketing for the tourism industry.

### **C. Justification and relevance for the MIF**

- 2.11 The purpose of this project is to substantially increase lifetime earnings for poor and low income youth in Peru by creating a sustainable and scalable impact sourcing model that simultaneously combines employment opportunities with access to higher education. As a long term goal, the adoption of such a model will contribute to the generation of employment for disadvantaged youth in Peru, and in other LAC countries upon successful replication of the model.

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<sup>7</sup> Income level segments are defined as monthly family income under these levels: A= 2700 soles, (\$1,080 USD), B = 1900 soles (\$760), C = 1400 soles, (\$560 USD), D = 900 soles (\$360 USD), E = 600 soles (\$240 USD). The definition of the income segments is taken from the Asociación Peruana de Empresas de Investigación de Mercados (APEIM).

- 2.12 First, the project will contribute to the MIF’s private-sector development goals through an innovative inclusive business solution in Peru with high expansion potential to other countries in the Region. The IS model will support the development of employment opportunities for poor and low-income youth, while also creating new services for local businesses and developing a talent pool of young professionals with IT skills and work experience that improves access to markets. The project will also directly support the MIF’s poverty-reduction mandate as it will help poor and low-income youth (and indirectly their families) to gain access to and pay for higher education, guiding them through a process of personal, skills, and socioeconomic development that prepares them for a lifetime of skilled professional employment. In addition, the project will contribute to the Bank’s country strategy with Peru and to the GCI-9 goals by supporting social inclusion of disadvantage youth.
- 2.13 This project is part of the MIF value chain topic as it develops a sustainable and scalable social enterprise business model as a tool to promote the economic empowerment and social inclusion of low income populations in a service chain. In this respect, the Impact Sourcing model implemented in the project has the potential to become an example of how social businesses can become a relevant developmental instrument in the region. The project will collaborate with the MIF’s Youth agenda for learning and potential future expansion and replication purposes.

### III OBJECTIVES AND COMPONENTS

#### Objectives:

- 3.1 The *impact* of this project is to contribute to the social and economic inclusion of disadvantaged youth. At the *result* level, the project will achieve the financial sustainability of an impact sourcing business model in Peru that empowers disadvantaged youth with workforce experience and marketable skills.
- 3.2 To facilitate achievement of the stated goal and objective, the project structure includes four key components: (i) Develop a comprehensive local business plan; (ii) Launch, recruitment and training of youth; (iii) Expansion of the model; and (iv) Knowledge sharing and communication.

#### Components:

##### **Component I: Develop a comprehensive local business plan (MIF U\$249,800; Counterpart U\$210,000).**

- 3.3 During the last year DDD has performed several analyses showing that Peru has a strong potential for Impact Sourcing initiative<sup>8</sup>. As a complement to those analyses, there is a

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<sup>8</sup> In addition to the before referred study “*Exploring the value proposition for impact sourcing*”, elaborated in 2012 by Accenture, an study of Monitor Inclusive Markets of 2011 “*Job creation through building the field of Impact Sourcing*” also provides data on the market of IS in the region that has supported the decision to start in Peru the social business.

need for developing a clear business plan that creates a road map for the implementation of the local social enterprise in Peru. In this respect, one first activity within the business plan will be to elaborate a detailed mapping of local market demand for content BPO services, which are the core of the services DDD will deliver. DDD will also conduct a survey of the youth population, and institutions for higher education and youth training. The study will also incorporate a localization plan, including best practices, tools, and documentation from other DDD sites to guide Peru replication (ie. in rural areas of the country).

- 3.4 Specific activities in this component include: (i) complete detail local business plan, including localization of premises, mapping clients in Peru and in Latin America as well as a skills assessment of the target population and a survey of existing training and higher education support programs; (ii) develop partnerships to manage the local expansion; (iii) secure a client-partner to contract significant DDD services in first two years of operation; and (iv) establish a DDD subsidiary for the operation of the IS social enterprise geared toward local business needs and opportunities.
- 3.5 Expected results of this component will be: (i) DDD subsidiary incorporated in Peru; (ii) minimum of \$500K in sourcing services contracted; and (iii) DDD subsidiary is reporting independent financial statements.

**Component II: Launch, recruitment and training of youth (MIF US\$314,307; Counterpart US\$305,000)**

- 3.6 Once the basics for the operation of the model have been created under component I above, the activities under this component are designed to launch business operations as well as to initiate youth recruitment and training programs for employment and scholarship in DDD. MIF resources under this component will be specifically targeted to recruiting and training costs, facility set-up, higher education, marketing and new service development. As part of the selection process of the youth, special focus will be placed on assuring that no gender barriers prevent women from having equitable access opportunities for the positions<sup>9</sup>.
- 3.7 Specific activities of this component include: (i) launch business and management operations with employed trainees; (ii) train youth employees; (iii) set up the facility; (iv) initiate program for trainees to gain access to higher education; (v) build sales and business to meet revenue targets, including a sales and marketing plan to promote the company's vision and services to the national and regional business community and (vi) develop new service and/or products to meet market demand and train staff.
- 3.8 Expected products of this component will be: (i) at least 1,200 youth apply to be part of the DDD program in Peru; (ii) the turnover rate for youth working/studying in the program is less than 5%; and (iii) 100 youth are employed in impact sourcing jobs in the pilot phase.

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<sup>9</sup> For instance reviewing that selection tests do not incorporate skills that may create a gender discrimination due to educational constraints (ie. IT or math skills).

### **Component III. Expansion of the model (MIF US\$402,440; Counterpart US\$335,000)**

- 3.9 The objective of this component is first to expand operations to incorporate more youth into the system, therefore consolidating the model and benefiting more youth. Second, the component will explore how to expand to another site in Peru (or another country within the LAC region) to test its viability as model both as an enterprise and as a mode of delivery for social programs. In the course of this component, the technical and operational capacities of DDD Peru will be developed in order to assure that the social business has the potential to sustainably grow.
- 3.10 Specific activities in this component include: (i) build a solid client base to ensure the sustainability and scaling up of the social business; (ii) develop an information technology system; (iii) recruitment and training of additional youth; (iv) implement the youth educational program; (v) develop new services and train staff; and (vi) elaborate a feasibility study for expansion.
- 3.11 Expected products of this component will be: (i) 500 youth are successfully studying tertiary education programs while working in the social business; (ii) \$1.5 USM of new services contracted by clients; and (iii) 2 new business services are offered to meet local and possible also international demand.

### **Component IV. Knowledge sharing and communication (MIF US\$155,000; Counterpart US\$85,000)**

- 3.12 Impact Sourcing is a new innovative model to promote empowerment of disadvantage youth. Accordingly, the objective of this component is ensure that the impact, methodology and lessons learned are collated and packaged to be distributed to a wider audience outside of those directly impacted from the project. It is important to mention that currently there is no existing knowledge in the region regarding Impact Sourcing, and therefore the project will generate a pioneer experience that will introduce a nascent industry that has the potential to benefit a substantial number of youth.
- 3.13 **Audiences.** The results of the project will be of particular interest of the following audiences: (i) business process outsourcing firms in the LAC region (ii) social businesses, social entrepreneurs and innovators in the LAC region; (iii) local governments (municipalities, province or state governments) and private organizations (chambers of commerce business associations, medium and large enterprises, academia) in the LAC region; (iv) national government entities with interest to develop youth employment under an IS model in the LAC region; and (v) social innovation development community.
- 3.14 **Knowledge return.** The project provides an opportunity to discuss the experiences of the Impact Sourcing model within the growing social innovation development community including foundations, think tanks, NGOs and other development organizations at conferences, academic forums, etc. In terms of knowledge creation, the following key

products will be developed: (i) a How-To Guide to Sustainable Impact Sourcing in LAC; (ii) video that depicts the development of the DDD Peru project development; (iii) case study of DDD Peru; and (iv) an infographic describing the IS model. In particular, the Guide to Sustainable Impact Sourcing in Latin America will be an important tool to disseminate the model in the region and make the case to audiences (corporations, governments, social business...) that Impact Sourcing can effectively and sustainably support disadvantaged youth development in the region.

- 3.15 Specific activities to communicate project learning to key audiences will include: (i) a conference on Impact Sourcing for Latin America region targeting key innovators in private sector, public administration, and social innovation development community; (ii) targeted dissemination of the Guide to Sustainable Impact Sourcing in LAC; and (iii) a communications strategy to raise awareness of new opportunities for enhancing opportunities of youth in LAC through the DDD Peru case study, video, and infographic.
- 3.16 Expected products of this component will be the following: (i) 10 national or international, private or public sector, audiences engaged (as donors, clients, allies) in the implementation of Impact Sourcing, as a tool for workforce development and higher education for disadvantaged youth; (ii) at least 300 people attending the first conference on Impact Sourcing in Latin America; and (iii) there is at least one firm commitment for the expansion of the Impact Sourcing model to another region in Peru or another country in Latin America.

#### IV. PROJECT COST, FINANCING AND EXECUTION PERIOD

- 4.1 The total cost of this project will be US\$2,600,000. MIF will contribute with a technical cooperation of US\$1,600,000; and DDD will contribute with US\$1,000,000 as counterpart funds, with at least 50% of the resources in cash contribution.

Components	FOMIN	COUNTERPART	TOTAL
<b>Component I: Develop a comprehensive local business plan</b>	249,800	210,000	459,800
<b>Component II: Launch recruitment and training</b>	314,307	305,000	619,306
<b>Component III: Expansion of the model</b>	402,440	335,000	737,440
<b>Component IV: Knowledge capture and dissemination</b>	155,000	85,000	240,000
Executing agency / Administrative	267,000	65,000	332,000
Ex post reviews	40,000		40,000
Base line, monitoring and evaluation	50,000		50,000
Contingencies	11,930		11,930
<b>Sub-Total</b>	<b>1,490,477</b>	<b>1,000,000</b>	<b>2,490,476</b>
% of Financing	59.85%	40.15%	
Institutional Strengthening	35,000		35,000
Impact evaluation account (5%)	74,524		74,524
<b>Grand Total</b>	<b>1,600,000</b>	<b>1,000,000</b>	<b>2,600,000</b>

- 4.2 **Execution period:** The program execution period will be 36 months with a disbursement period of 42 months.
- 4.3 **Sustainability:** The project will create a viable ongoing social enterprise in Peru that will ensure continued social impact based on the foundation of solid business structure. DDD aims to be an example of excellence in terms of both its business as well as its social impact. Financial sustainability will come from the income from service contracts with private sector businesses and public institutions. The focus will be on developing a client base locally in Peru -and more broadly in the LAC region- so that the local management team is empowered to ensure financial sustainability. Sustainability in terms of human resources will be based on recruiting and retaining a skilled committed management team for the enterprise in Peru, with the capacity to sell and delivery work--and also manage DDD's social program. This example of sustainability will help ensure the replication and expansion of the model in the region. According to financial projections and DDD's previous experience in Kenya, it is expected that the enterprise will achieve break even on a business basis in year 3 of operations.

## V. EXECUTING AGENCY AND EXECUTION MECHANISM

- 5.1 The executing entity will be Digital Divide Data (DDD)<sup>10</sup>, a US-based 501C3 non-profit organization. Digital Divide Data's mission is "*to create better futures for disadvantaged youth in developing countries through employment in our financially sustainable business*". DDD has been recognized with numerous awards, including the Skoll Award for Social Entrepreneurship, the eAsia Award for Employment Creation in Asia, and the World Bank's Development Marketplace Award. In 2012, DDD was ranked by The Global Journal as one of the Top 100 NGOs in the world. DDD has operational offices in Laos, Cambodia and Kenya, where it supports over 1,500 youth with employment and educational opportunities.
- 5.2 According with Component I above, as part of the project DDD will incorporate a subsidiary in Peru<sup>11</sup> that will implement the social business in Peru. Even though the specific institutional form of the local entity will be defined as part of the local business plan, following the experience of Kenya it is likely that it will take the form of a for profit social enterprise. The structure of a for-profit social enterprise will provide a vehicle for potential investment by impact investors, therefore granting the model a better potential for scale. The ownership structure by a non-profit and the documents of incorporation of the local social enterprise will clearly specify the relevant safeguards so the social mission of the entity is preserved<sup>12</sup>.
- 5.3 As a condition for the implementation of the activities under Components II, III and IV in Peru, DDD will need to have incorporated the subsidiary in Peru. Once such local

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<sup>10</sup> See <http://www.digitaldividedata.org/> for further information on the entity.

<sup>11</sup> Either directly or through a DDD subsidiary, DDD Ventures LLC. DDD will provide the capital for the incorporation of the subsidiary.

<sup>12</sup> The documents regarding the incorporation of the local subsidiary will need to be approved by IDB/MIF.

subsidiary is incorporated, DDD US will sign a specific agreement with the subsidiary to execute the activities in Peru. To mitigate potential risks on the execution of the project due to issues arising from the incorporation of such local subsidiary, the signing of this agreement with the subsidiary established to the satisfaction of IDB/MIF will be a condition for the disbursements of the funds under Components II, III and IV. In that moment and to facilitate implementation of the mentioned components of the project, a Project Executing Unit (PEU) will be set up in Peru<sup>13</sup>. This unit will report to DDD and will include a Project Coordinator supported by a Project Assistant. The PEU will be responsible for technical implementation as well as project management, together with reporting and administration tasks related to MIF requirements. DDD will assume responsibility for fiduciary management, contractual compliance, and quality assurance of the project.

- 5.4 The project executing unit will be guided by an advisory board consisting of key public, private and social sector actors. This committee will be co-chaired by DDD's CEO and a representative from the MIF, who will also serve on the board. The advisory board will be responsible for guiding the PEU and ensuring that all pursued activities will assist in achieving project objectives.
- 5.5 **Intellectual property.** The project was originated as part of the Impact Sourcing methodology developed by DDD. In this respect, the methodology for Peru that will be developed by this project must be understood as a substantial part of such broader methodology, particularly in terms of technical components and manuals, and therefore property of DDD. However, in respect to the general Impact Sourcing business model and in order to promote the replication of this scheme, the IDB/MIF will have the intellectual property of materials related to the general IS business model that are generated as part of the project - in particular the How-To Guide to Sustainable Impact Sourcing in LAC-, and DDD will contribute to the dissemination to other potential partners<sup>14</sup>.
- 5.6 **Disbursement by Results.** Project disbursements will be contingent upon verification of the achievement of milestones. These milestones will be verified using their means of verification, which will be agreed upon between the Executing Agency and the MIF. Achievement of milestones does not exempt the Executing Agency from the responsibility of reaching the logical framework indicators and project's objectives.
- 5.7 According to the Performance and Risk-based Project Management approach, project disbursement amounts will be based on the project's liquidity needs, for a maximum period of 6 months. These needs must be agreed upon between the MIF and the Executing Agency and will reflect the activities and costs scheduled in the annual planning exercise. The first disbursement will be contingent on reaching Milestone 0 (conditions prior). Subsequent disbursements will be issued as long as the following two conditions are met: (i) MIF has verified that milestones have been achieved, as agreed to in the semi-annual plan; and (ii) that the Executing Agency has justified 80% of all cumulative advances.

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<sup>13</sup> At this point the supervision of the project will be transferred from MIF HQ to MIF Peru.

<sup>14</sup> Without having to reveal sensitive business information to potential competitors.

- 5.8 **Financial Management:** DDD will establish the structure necessary to carry out the financial management of the project. The Executing Agency will be responsible for maintaining adequate accounts of its finances, internal controls, and project files according to the financial management policy of the IDB/MIF. To support the launching of the project (particularly Component I) and to strengthen the institutional capacities of DDD, an Administrative Assistant (with expertise in accounting and procurement) will join DDD in the USA. All relevant financial and technical support documentation of the project will be available for review at the USA HQ of DDD.
- 5.9 **Procurement and contracting:** For the procurement of goods and contracting of consulting services, the Executing Agency will apply the IDB Policies (GN-2349-9 y GN-2350-9). Given that the Diagnostic of Executing Agency Needs (DNA) generated a high level of need/risk classification, the project team has determined as stipulated in Appendix 4 of the IDB Policies, the Executing Agency which belongs to the private sector, will use the private sector procurement methods specified in Annex 1 of the Operational Guidelines for Technical Cooperation Projects (OP-639). In addition, the review of procurement and contracting processes for the project will be conducted ex-post and on a quarterly basis. With project resources, the IDB/MIF will contract consultancy services to support and train the Executing Agency in procurement areas that require further strengthening as identified through the Diagnostic of Executing Agency Needs (DNA) [<http://mif.iadb.org/projects/prjrissummary.aspx?proj=PE-M1091>]. Before project contracting and procurement begins, the Executing Agency must submit the project Procurement Plan for the IDB/MIFs approval which should be updated semi-annually and when there are changes in the methods or goods or services to be procured. Given that the institutional risk assessment of the executing agency resulted in a classification of high risk, the review of procurements and contracting for the project will be conducted on a Component I an ex-ante basis and for the component II, III and IV will be conducted an ex-ante basis for the first three processes and an post basis on a semi- annual frequency for the rest of the Execution period.
- 5.10 **Financial Management and Supervision.** The Executing Agency will be responsible for project accounting, maintaining internal control, resource administration, and project filing systems, as established in the accounting and auditing standards and policies of the IDB/MIF. Given that the Diagnostic of Executing Agency Needs (DNA) generated a high level of need/risk in financial management, the review of supporting documentation for disbursements will be conducted ex-post and on a quarterly basis. With project resources, the IDB/MIF will contract consultancy services to support and train the Executing Agency DDD Peru in financial management and in the areas that require further strengthening identified through the Diagnostic of Executing Agency Needs (DNA) [<http://mif.iadb.org/projects/prjrissummary.aspx?proj=PE-M1091>] when the PEU is established. Finally, activity 1.6 “*Systematization, exchange, and replication of the model*” under Component I will be implemented by MIF to facilitate the engagement of broader audiences in the model and to connect with other MIF related initiatives.
- 5.11 The MIF will contract independent auditors to carry out the ex-post reviews of procurement processes and of supporting documentation for disbursements. Ex post



reviews will include an analysis of the Financial Statements that the EA should prepare as part of its financial management.

- 5.12 During project execution, the frequency of ex post reviews for procurement processes and supporting documentation for disbursements as well as the need for additional financial reports can be modified by the MIF based on the results of the ex post review reports conducted by external auditors during the project execution.

## **VI. MONITORING AND EVALUATION.**

- 6.1 **Monitoring.** The MIF Specialist in the IDB Country Office in Peru and in Washington will be responsible for supervising and monitoring the project, and will be assisted by the project team. Given that the Diagnostic of Executing Agency Needs (DNA) generated a high level of need/risk in financial and procurement area, the review of supporting documentation for disbursements and procurement will be conducted ex-post and on a semi-annual basis. With project resources, the IDB/MIF will contract consultancy services to support and train the Financial and procurement specialist in DDD.
- 6.2 The Executing Agency will be responsible for presenting Project Status Reports (PSRs) to the MIF within thirty (30) days after the end of each semester, or more frequently as determined by the MIF by providing at least sixty (60) days advance notice to the Executing Agency. The PSR will contain information on the progress of project execution, achievement of milestones, and completion of project objectives as stated in the logical framework and other operational planning tools. The PSR will also describe issues encountered during execution and outline possible solutions. Within ninety (90) days after the end of the execution term, the Executing Agency will submit to the MIF a Final Project Status Report (Final PSR) which will highlight results achieved, project sustainability, evaluation findings, and lessons learned.
- 6.3 **Evaluations.** A project baseline will be established at the outset, and two evaluations (a midterm and a final) will be conducted over the course of the project. The baseline will determine initial levels of the logical framework indicators as well as the conditions and assumptions under which the project will begin implementation. DDD will collect baseline data for its trainees through a survey tool and measurement process developed by the William Davidson Institute at University of Michigan. DDD administers skills test of English, workplace, and IT skills at the start of the program and annually.
- 6.4 The project will establish a monitoring and evaluation system and define the appropriate monitoring methodologies by using the following: (i) business reporting; (ii) social impact reporting; and (iii) skills-testing methods, among others. These monitoring methods will be implemented annually to assess and measure financial, operational, social, skills results and impacts obtained from the project.
- 6.5 The Bank, using resources from the MIF contribution, will hire independent consultants to conduct the project evaluations. The midterm evaluation will be conducted halfway through the project implementation period. This evaluation will cover: (i) whether the focus remains relevant for the beneficiaries; (ii) whether or not there are significant

deviations in the execution of activities; (iii) the fulfillment of the performance indicators; (iv) if socio-environmental effects have been detected during implementation of activities; (v) identification of lessons learned; (vi) corrective measures for the remaining execution of the project, if necessary; and (vii) other related issues regarding the capacity of the EA and general implementation of the project. A final evaluation will be undertaken by external consultants contracted by the MIF in Peru. The evaluation will be done three months before project completion. For the final evaluation, consultants will consider the following evaluation questions: (i) have the project contributed to the effective empowerment of youth?; (ii) has the selection process identified the right target of disadvantage youth?; (iii) has the social business achieve a financial sustainability while keeping its focus on its social mission?; (iv) have key audiences engaged in Impact Sourcing?; and (v) is there a potential for expanding the impact of the operation to other entities and regions?

## **VII. BENEFITS AND RISKS**

- 7.1 **Benefits.** The project is expected to have a significant positive impact on local communities and businesses, young people, and private and public sector entities that have the mission to provide sustainable employment for youth in Peru. The direct beneficiaries of the project will be: (i) 500 youth (at least half of them women, and approximately 10% with disabilities, all in income segments C, D and E). In addition, it is expected that the activities of the project will indirectly benefit 2,500 low-income family members of the youth. As a central part of the sustainable social business model of DDD, after project completion it is expected that additional annual cohorts of at least 150 of youth will continue benefiting from the project, therefore substantially expanding project scope along the time.
- 7.2 **Potential risks.** One first potential risk comes from the fact that DDD will be implementing, through an ad hoc subsidiary, a new business model in a new region of intervention which may entail risks that threaten the achievement of project objectives such as the identification of local leaders or partners with the necessary skills, experience, and values to lead a social enterprise. As a mitigation measure for this risk, DDD has engaged in several partnerships with Peruvian entities and a local advisory board will support the hiring of a local coordinator to enhance the local connections. A second risk is the capacity of the social enterprise to face two principal challenges: (i) to achieve financial sustainability; and (ii) to keep focused on its social purpose (in this case, on youth development). As mitigation measures for this risk, first DDD counts relevant experience successfully launching similar endeavors in Kenya, Laos and Cambodia, and a base of clients with some demand for services in Spanish. Secondly and regarding the focus on the social purpose, DDD has defined a set of social indicators on which the managers need to report periodically, that guarantee that the social mission is not only monitored but that it guides the operation of the institution.

## **VIII. ENVIRONMENTAL AND SOCIAL IMPACTS**

- 8.1 This operation has pre-evaluated and classified according to the requirements of the Policy Environment and Safeguards Compliance IDB (OP-703). Since the impacts and risks are limited, the proposed Project Category is “C”.