

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

BRAZIL

**DEVELOPMENT OF A
MICROFRANCHISE IMPLEMENTATION METHODOLOGY**

(BR-M1061)

DONORS MEMORANDUM

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Draft resolution

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Document I	Contracting plan
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ABBREVIATIONS

ABF	Associação Brasileira de Franchising [Brazilian Franchising Association]
ACIM	Associação Comercial e Empresarial de Maringá [Maringá Commercial and Business Association]
AWP	Annual work plan
ESR	Environmental and Social Impact Review Secretariat
GDP	Gross domestic product
MSME	Micro, small and medium-sized enterprise
PSR	Project status report
SEBRAE	Serviço de Apoio às Micro e Pequenas Empresas [Brazilian Microenterprise and Small Business Support Service]
SME	Small and medium-sized enterprise

GLOSSARY

Franchisor	Owner or beneficial owner of a trade name or distinctive brand, and of a combination of knowledge and experience (“know-how”).
Franchisee	Entrepreneur who joins a franchise business system in order to operate one or more business establishments under the franchisor’s trade name, brands, system, and technical assistance.
Business franchise	A system of chain reproduction of a successful commercial or industrial business model through legally independent operators. The characteristic features of a business franchise include: <ol style="list-style-type: none">1. Contractual relationship.2. Shared use of the franchisor’s brand or trade name.3. Initial transfer of know-how from the franchisor to the franchisee (in the form of Operating Manuals and initial instruction and training).4. Ongoing technical assistance from the franchisor to the franchisee through operational support, retraining, and technical and business/industrial supervision.5. Legal independence between the parties, each acting on its own behalf and for its own account and risk.6. Uniform operation, requiring the franchisee to operate in accordance with strict rules provided by the franchisor.
Franchise network provider	Centralizes the commercial and contractual aspects of supplying the entire network in a single business arrangement with the franchisor.

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I. EXECUTIVE SUMMARY

Executing agency:	Instituto Tomodati de Cooperação do Brasil (Instituto Tomodati)	
Beneficiaries:	The beneficiary will be Instituto Tomodati, which by executing the project will benefit: (i) 15 franchisors, each having between one and three microfranchisees; (ii) 100 potential franchisors, with franchisability assessments; (iii) 300 potential microfranchisees, with profile compatibility assessments; (iv) 60 professionals trained to offer consulting services to the new microfranchise networks; (v) 1,500 individuals made aware of the methodology through a communications strategy; and (vi) financial institutions, universities, NGOs and business development service firms associated with the project.	
Financing:	Modality:	Nonreimbursable
	MIF (50%) ¹	US\$603,000
	Local: (50%)	US\$584,934
	Total: (100%)	US\$1,187,934
Objectives and description:	The project's general objective is to enable sustainable expansion of Brazilian microenterprises and small businesses. The specific objective is to develop a microfranchise implementation methodology, primarily in the city of Maringá and the northwest region of the state of Paraná.	
Execution timetable:	Execution period:	36 months
	Disbursement period:	42 months

¹ This percentage does not include funds for franchise cluster activities and impact evaluation.

Special contractual clauses:	As conditions precedent to the first disbursement: (a) a cooperation agreement will be entered into with Serviço de Apoio às Micro e Pequenas Empresas [Brazilian Microenterprise and Small Business Support Service] (SEBRAE) to provide the counterpart contribution; (b) the coordinator of the project execution unit will be named; (c) the Operating Regulations will be in effect; and (d) the annual work plan will be delivered for the first year of the project. As a special contractual condition: The intellectual property rights arising from consulting assignments to structure each microfranchise cofinanced by a businessperson will belong to such businessperson, since these rights are essential to his/her franchise.
Exceptions to Bank policy:	Approval is requested for an exception to the Bank policy on audits, such that the Bank will contract the auditors for the final audit and ex post review of disbursements (see paragraph 5.6).
Coordination with other official development institutions:	At present, there are no similar projects in Brazil financed by other official development institutions.
Environmental and social review:	The Environmental and Social Impact Review Secretariat (ESR) reviewed the project on 15 September 2008, and classified it as category “C.”

II. BACKGROUND

- 2.1 It is estimated that close to 300,000 individuals are currently seeking a franchise in Brazil. Indeed, of the country's 5,800,000 retail business units, 65,500 are franchises already in operation. According to data from the Associação Brasileira de Franchising [Brazilian Franchising Association] (ABF) and Serviço de Apoio às Micro e Pequenas Empresas [Brazilian Microenterprise and Small Business Support Service] (SEBRAE), the franchise sector accounts for approximately 1% of retail business transactions, while representing 24% of total sales. Based on 2007 data, the franchise sector consists of 1,197 franchise networks with 65,500 franchised units. It employs 594,000 workers and generates 46 billion Brazilian reais in sales, up 15.6% compared to 2006. These figures illustrate the sector's momentum and the opportunities it offers.
- 2.2 Effective implementation of franchises is critical for the sector's sustained growth. The companies that franchise their business have widely disparate levels of organization and management control, and not all businesses identified as a franchise are, in fact, franchisable or operate effectively as a franchise. This is due to the fact that, while there may be successful entrepreneurs capable, on their own, of standardizing and manualizing management processes, marketing franchises, and creating support systems for their networks, the work involved is complex and prior knowledge and experience are essential for successfully developing a franchise network. In many cases, poor planning without specialized support leads to franchises constantly being started and then shuttered.
- 2.3 Another key barrier preventing greater growth and access by individuals interested in this type of business is the high cost of buying a franchise. More than half the networks in operation require an investment of 100,000 to 500,000 Brazilian reais, while it is estimated that less than 9% of the existing networks require an initial investment under 50,000 reais (US\$21,692 at the January 28 exchange rate). These high market entry costs keep out many entrepreneurs and businesspeople seeking to start their own business, but with a more controlled risk level. These include the dekassegus, Brazilians of Japanese descent who emigrate to Japan to work.
- 2.4 Estimates are that more than 312,000 Brazilians currently work in Japan, sending home US\$2.5 billion in remittances per year and thus contributing to the economic growth of various regions of Brazil. This is true of the state of Paraná, which has the highest concentration of dekassegus outside São Paulo. In addition to this group's marked propensity for saving money, 45% of dekassegus wish to open a small business upon their return to Brazil.² However, when they return, many face major challenges in opening and operating their enterprises. In addition to the problems common to all new businessmen, they face the task of cultural and economic reintegration after working five or more years in Japan, as well as the

² SEBRAE/IDB report, 2004.

- need to build business networks, a credit history, and knowledge of the Brazilian economy. In such a scenario, company closings are not rare.³
- 2.5 Instituto Tomodati, headquartered in Maringá, state of Paraná, has identified a trend among dekassegui entrepreneurs to favor franchise models when opening a business. This is because the franchise offers a number of advantages highly valued by dekasseguis: lower risk and lighter creative burden; the use of manuals for production and management processes; and, particularly, access to training and ongoing technical assistance from franchisor to franchisee. Moreover, there are companies founded by dekasseguis that have been operating for several years, are financially sound, have an established customer base and good knowledge of the business's management and production processes, and may be ripe for growth and expansion through franchises.
- 2.6 The proposed project seeks to promote the development of franchise networks that are more accessible to businesspeople and entrepreneurs with limited resources and provide effective support systems. In the context of this project, the microfranchise is a concept that shares basic elements with a franchise but leans toward nontraditional franchising methods⁴ and requires an investment of under 50,000 Brazilian reais by the franchisee. The word 'micro' does not refer to a business in the development stage, but to a business of smaller physical and financial size than a traditional franchise. The central franchisor may be a small, medium or large company, depending on the degree of supervision, control, and services offered to the microfranchise network. Essentially, the microfranchise brings together talented, successful entrepreneurs—the franchisors—and individuals with a less robust entrepreneurial profile who would like to open their own small business with more controlled risks and who have seed capital available of 50,000 reais or less.
- 2.7 The project will be conducted in Maringá and surrounding region, in the state of Paraná, because conditions there are very favorable for testing the microfranchise methodology and new networks. These include: (i) an executing agency, Instituto Tomodati, which has strong management capacity, networks with other institutions, and is close to the target group of potential beneficiaries; (ii) a concentration of dekasseguis who have capital available for starting a business (although it should be noted that the project can benefit both dekasseguis and non-dekasseguis); (iii) the fact that Maringá, with 325,000 inhabitants, is the third largest city in the state and a hub for the entire northwest region, and has ample buying power and a strong partnership and community profile; and (iv) the fact that Paraná is the Brazilian state with the third largest number of franchisors.

³ The MIF Dekassegui Entrepreneurs project (ATN/ME-9119-BR), slated to conclude in May 2009, builds on the entrepreneurial bent of dekasseguis by providing training and technical assistance to increase the likelihood of their business success. The project is being executed by the SEBRAE national office in four states, with the participation of five institutions, Instituto Tomodati being one of the most dynamic.

⁴ For example, personal franchises for individuals; conversion franchises, where an existing business adopts a franchise brand; educational franchises developed inside a school, etc.

- 2.8 The project is innovative, in that there are currently few microfranchise networks and the potential for replication in other regions of the country is very high. The methodology to be developed is expected to be applicable nationwide and made available for use by other Brazilian municípios and states with the involvement of SEBRAE or another national training entity. The project will be part of the “franchising as a formula for expanding successful businesses” cluster (document MIF/GN-128), and is the first project focusing on promoting the development of more accessible franchises for interested individuals. Moreover, the operation is consistent with the Bank’s country strategy with Brazil (document GN-2327-1), in that it seeks to strengthen the productive structure by supporting microenterprises and small businesses in their expansion.

III. OBJECTIVES AND COMPONENTS

- 3.1 The project’s general objective is to enable sustainable expansion of Brazilian microenterprises and small businesses. The specific objective is to develop a microfranchise implementation methodology, primarily in the city of Maringá and the northwest region of the state of Paraná. The project has the following components: (i) development of a microfranchising methodology; (ii) promotion and implementation of this methodology; (iii) development of a support system for microfranchisees; and (iv) dissemination of outcomes and lessons learned.
- 3.2 **Component 1. Development of a microfranchising methodology (MIF: US\$174,921; Counterpart: US\$17,494).** The objective of this component is to design a methodology for sustainable expansion of microenterprises and small businesses based on the concept of microfranchising. This will involve analysis of the microfranchising market and good practices in Brazil and other countries; design and implementation of a new methodology in a group of three to five pilot franchisors; and training of professionals to implement the method and validate the instruments and the methodology.
- 3.3 A committee will be created to select the pilot franchisors, consisting of Instituto Tomodati, SEBRAE, the MIF and two consultants specializing in franchises. The selected pilot franchisors may be one of two types: (a) a proven small business that successfully passes a franchisability assessment and has microfranchising potential; and (b) existing franchisors interested in opening a line of microfranchises, or that have already created a microfranchise network but needing to resize the physical/financial aspect of the microfranchise. Potential franchisors and franchisees will be eligible for technical assistance if they have fewer than 100 employees and under US\$5 million in annual sales or US\$3 million in assets. In this initial phase, the project will cofinance up to 50% of the price of the consulting services for structuring microfranchises, or less, depending on the number of pilot franchisors selected, and the company will contribute the rest. If the franchisor is a larger company, it will not be eligible for project assistance, but its microfranchisee network will be eligible. The pilot prequalification and selection criteria are described in the Operating Regulations. Moreover, professionals

interested in participating in the project and receiving training in the methodology may include franchise executives or specialists, as well as consultants with experience in business development who specialize in marketing, sales, training, etc. The eligibility and selection criteria for participants in the training events are described in the Operating Regulations.

- 3.4 The following activities will be financed: (i) diagnostic assessment of the microfranchising market and good practices; (ii) conceptual design of the microfranchising methodology; (iii) awareness events; (iv) consultant training; (v) identification and selection of pilot franchisors; and (vi) development, implementation, and validation of the microfranchising methodology tools.
- 3.5 As the main outcome of this component, a methodology will be designed, implemented, and validated for replication, and between three and five companies will be selected using the methodology implemented. In addition, 20 professionals will be trained in the methodology during the first year of execution, and another 40 over the next two years, for a total of 60 consultants. These consultants are expected to support the new microfranchises as well as staff multidisciplinary teams at franchise consulting firms.
- 3.6 **Component 2. Methodology promotion and implementation (MIF: US\$180,402; Counterpart: US\$80,481).** Once the methodology has been designed and validated, the project includes a campaign to make potential franchisees aware of the microfranchising methodology and its advantages and risks as a business expansion alternative. Therefore, this component focuses efforts on promoting the methodology, providing technical assistance to new franchisors who decide to develop franchises, and creating a network of consultants.
- 3.7 Plans call for conducting initial diagnostic assessments to evaluate microfranchisor candidates. These diagnostic assessments will determine whether the company is franchisable and its financial and operating condition will allow the transition into microfranchising. As in Component 1, in order to select the companies to receive support, the Selection Committee will meet again to evaluate proposals based on the criteria stated above, as adjusted during the first component. The selected companies may receive technical assistance for franchise consulting, management support, and documentation of process.⁵ Workshops and Web tools will be developed to create a network of project consultants that facilitates access to information, communication, and exchange of know-how. The component also includes business roundtables to publicize franchisors and bring in potential entrepreneurs wishing to invest in microfranchises.
- 3.8 The following activities will be conducted: (i) a promotional campaign with a communications plan and awareness strategies for the target public; (ii) diagnostic assessments of potential franchisors; (iii) selection of microfranchisors;

⁵ An estimated amount of up to US\$8,000 in technical assistance per company was used. On average, this is 40% of the estimated total for consulting services, and the company will cover the rest.

- (iv) technical assistance for selected franchisors; (v) development of a consultant network; and (vi) business roundtables.
- 3.9 As outcomes of this component: 100 diagnostic assessments will be performed; 12 additional companies will adopt the microfranchising methodology; and a consultant network will be up and running.
- 3.10 **Component 3. Support system for microfranchisees (MIF: US\$34,600; Counterpart: US\$226,386).** The objective of this component is to provide technical assistance and training to entrepreneurs wishing to become microfranchisees. To achieve this, events and meetings will be held with potential microfranchisees, to familiarize them with the methodology and existing opportunities. Those interested in microfranchises may undergo a diagnostic assessment of their profile compatibility, evaluating their ability to manage a microfranchise unit. They will also have a tool at their disposal for studying business opportunities in the franchise's sector. The microfranchisees selected for the project's microfranchising networks will be eligible for technical assistance in selecting the point of sale and on legal issues such as reviewing the contract and the Franchise Offering Circular, as well as for guidance on the business startup phase. In addition to this specific technical assistance, the project will offer specific additional training courses in those areas of business management where the greatest weaknesses are detected.
- 3.11 The following activities will be financed: (i) raising awareness and publicizing microfranchises among potential beneficiaries; (ii) franchisee profile compatibility assessments; (iii) a tool for evaluating franchising opportunities; (iv) technical assistance for microfranchisees; (v) training; (v) a tool for ongoing support and virtual management of the microfranchise network.
- 3.12 As outcomes of this component: an expected 1,500 people interested in acquiring a microfranchise will be reached by awareness efforts; 300 franchisee profile compatibility assessments will be performed; and 30 microfranchise companies will be started.
- 3.13 **Component 4. Dissemination of outcomes and lessons learned (MIF: US\$87,227; Counterpart: US\$106,573).** The objective of this component is to monitor, document, and disseminate the outcomes and lessons learned from the project, so as to generate demand for their future adoption in other parts of Brazil. An indicator baseline will be developed for measuring sales and profitability data for the microfranchise startups, along with other relevant data such as: jobs created, microfranchisees' educational and socioeconomic profile, types of microfranchise contracts, and sectors of activity. The project will have its own website, informational bulletins, and other communication tools to keep target beneficiaries and the general public informed and up-to-date. The project also provides for participation at franchise and business fairs in Brazil, to promote the opportunities offered through this new methodology. At the technical level, case studies will be conducted, and a book published documenting the experience.

Lastly, an international closing seminar will be organized to discuss outcomes, implementation challenges, and opportunities for the future.

- 3.14 The following activities will be financed: (i) indicator baseline; (ii) project website, magazines, and bulletins; (iii) participation at business and franchise fairs; (iv) case studies and preparation of a book; and (v) international seminar.

IV. COST AND FINANCING

- 4.1 The project's total estimated cost is US\$1,187,934. The MIF will contribute US\$603,000 in nonreimbursable resources, and Instituto Tomodati will contribute US\$584,934, at least 50% of which will be in cash. The project's estimated budget is presented below.

**Estimated Budget
(in US\$)**

Budget categories	MIF contribution	Local contribution	Total	%
Component 1	174,921	17,494	192,415	16.2
Component 2	180,402	80,481	260,883	22
Component 3	34,600	226,386	260,986	22
Component 4	87,227	106,573	193,800	16.3
Administration and logistics	48,850	154,000	202,850	17.1
SUBTOTAL	526,000	584,934	1,110,934	93.5
Contingencies	10,985		10,985	0.9
2 Evaluations	28,000		28,000	2.4
Final audit and reviews	20,000		20,000	1.7
TOTAL	584,985	584,934	1,169,919	98.5
Cluster activities ⁶	15,000		15,000	1.3
Impact evaluation ⁷	3,015		3,015	0.3
GRAND TOTAL	603,000	584,934	1,187,934	100%
Percentages	50%	50%	100%	

- 4.2 The project's benefits will be sustainable over time, since all tools made available to the companies can continue to operate after the technical assistance cofinancing has ended. The project will have created the conditions for the system to grow on its own, with the support of businesspeople who are informed and aware, and potential franchisees armed with greater knowledge of the microfranchising methodology; with institutional foundations that are well organized in legal,

⁶ These resources will be administered directly by the Bank and deducted from the contribution amount, with no requirement of a disbursement request from the Executing Agency, in order to conduct franchising cluster activities.

⁷ These resources will be used to cover expenses related to the activities of the MIF Impact Evaluation System, and will be disbursed and credited to the "Impact Evaluation Account" with no requirement of a disbursement request from the beneficiary.

contractual, business, financial and operational terms, and with an expanded consulting services market.

V. EXECUTING AGENCY AND EXECUTION MECHANISM

- 5.1 The project will be executed by Instituto Tomodati de Cooperação de Brasil, a nonprofit organization founded in 2006 in Maringá, Paraná. It supports the human and community development of the dekassegui and their families through socioeconomic, cultural and educational programs, projects and research with a view to minimizing the problems faced by dekassegui workers and family members in Brazil and abroad.
- 5.2 Instituto Tomodati has an excellent reputation and ability to marshal support in the Maringá business community. It often works in collaboration with other city and state organizations, both public and private. For the execution of this project, a cooperation agreement is expected to be signed with SEBRAE for the counterpart contribution, and with Associação Comercial e Empresarial de Maringá [Maringá Commercial and Business Association] (ACIM) for office space and administrative support for the project execution unit. Instituto Tomodati has not directly executed MIF projects but, as noted above in footnote 2, is cooperating in a highly satisfactory manner on the Dekassegui Entrepreneurs project.
- 5.3 **Execution mechanism.** A project execution unit (PEU) will be established, housed at Instituto Tomodati and reporting to the Bank's Country Office in Brazil. The PEU will be directed by a full-time project coordinator, who will monitor and evaluation the consultants' work and project progress with the support of an administrative assistant and a financial accountant, both also full-time. There will be an Advisory Board made up of SEBRAE, ACIM, franchise specialists, financial institutions, universities and the Maringá municipal government to provide guidance and support in achieving objectives and outcomes, as well as in strategic direction and the institutional coordination needed to support project activities. The Advisory Board will meet quarterly the first year, and every six months during the second and third years, or whenever Instituto Tomodati deems it necessary.
- 5.4 **Results-based disbursements.** The disbursement of contribution resources will be contingent upon the achievement of milestones, which will be agreed between the executing agency and the MIF along with their means of verification. Achievement of milestones does not exempt the executing agency from responsibility for achieving the project's objectives, or accountability to the Bank for expenses. Under the risk- and performance-based project management model, the project disbursements will be made according to results-based disbursement mechanism 1 as described in the April 2008 MIF Operating Guidelines for Technical Cooperation Operations. Accordingly, the first disbursement will be in the amount necessary to reach the project's first milestone. Subsequent disbursements will be

based on successful achievement of the milestones agreed upon in the annual work plan⁸ (see Operating Regulations and Document V).

- 5.5 **Procurement.** All procurements will be conducted in accordance the Procurement Plan to be prepared by the executing agency at the start of the operation and updated annually, subject to Bank approval. Activities financed with the contribution resources will be conducted in accordance with the “Policies for the procurement of works and goods financed by the IDB” (document GN-2349-7, as amended) and the “Policies for selection and contracting of consultants financed by the IDB” (document GN-2350-7, as amended), and in accordance with the April 2008 MIF Procurement Guidelines based on these policies. Since the institutional risk rating is “high risk,” project contracting and procurement will be subject to ex ante review. In addition, the executing agency will use project resources to commission a consulting engagement to provide administrative and fiduciary support and training.
- 5.6 **Financial supervision.** Instituto Tomodati will establish and assume responsibility for keeping adequate financial accounts, internal control mechanisms, and filing systems for the project, which shall be consistent with IDB/MIF accounting and auditing rules and policies. The institutional risk rating was determined to be “medium risk,” so the project financial statements will be audited at the end of execution. Approval is requested for an exception to the Bank policy on audits, such that the Bank will contract the auditors for the final audit and review of disbursements. The supporting documentation for disbursements will be subject to ex post review on a six-monthly basis.
- 5.7 Application and frequency of ex ante reviews of procurement processes and supporting documentation may be modified by the MIF based on the results of reviews and/or subsequent risk analyses performed during project execution.
- 5.8 **Project readiness.** The project has been agreed with Instituto Tomodati in terms of objectives, components, activities and budget, including the counterpart commitments. The draft Operating Regulations and ACIM’s letter of support to the institute for project execution are also ready.

VI. MONITORING AND EVALUATION

- 6.1 The Bank’s Country Office in Brazil will be responsible for supervision of the execution of activities and achievement of results, performance of contractual clauses, attainment of milestones, and processing of disbursement requests. Instituto Tomodati will be responsible for delivering semiannual project status reports (PSRs) within 30 days after the end of each six-month period. These reports will follow a format previously agreed upon with the MIF and will contain information on project execution, achievement of milestones, results obtained, and

⁸ The milestones will be reviewed jointly by the executing agency and the IDB/MIF during presentation of the first annual work plan at the start of the project.

- their contribution to achieving the project objectives as stated in the Logical Framework and other operative planning instruments. The PSR will also describe project issues encountered during execution, and outline possible solutions. Within 90 days after the end of the execution period, Instituto Tomodati will deliver a final PSR to the MIF, which will highlight results achieved, project sustainability, and lessons learned.
- 6.2 With resources from the MIF contribution, the Bank will contract independent consultants to conduct two evaluations: a midterm evaluation once 50% of the project resources have been disbursed, or once half of the execution period has elapsed, whichever occurs first. Based on the Logical Framework indicators and project reports, the midterm evaluation will review what has been, and remains to be done, and will recommend corrective measures, including a discussion of sustainability issues. These will be reviewed at a sustainability workshop to be held one year before the end of the execution period to identify the measures needed to ensure continuity of action once project funding has ended. The final evaluation will be conducted within three months after the end of project execution, focusing on lessons learned from the outcomes and on the effectiveness of the methodologies implemented to meet project objectives.
- 6.3 Three months before the end of the project execution period, a closing workshop will be held to evaluate the outcomes achieved, actions necessary to enhance the project's impact, and the scope of an ex post evaluation to be conducted two or three years after project end, to assess its impact.

VII. RISKS AND BENEFITS

- 7.1 **Benefits.** The specific benefits for the franchisors and microfranchisees will be the following. For the franchisors, franchising: (i) represents adjustment of internal processes, business practices, tax situation, and legal status, all of which translate into significant improvements in legal aspects, image, business strategy, expansion strategy, and internal logistics; (ii) accelerates growth; (iii) facilitates access to economies of scale; (iv) standardizes processes; (v) lowers risk; (vi) increases the value of their brand; (vii) optimizes the use of statistical management tools; and (viii) creates additional sources of income. By joining an existing network, the microfranchisee: (i) gains immediate access to a known brand; (ii) receives ongoing technical assistance from the franchisor; (iii) gains access to economies of scale; (iv) keeps the ownership of the business; (v) lowers startup and operating costs; (vi) is supplied with accurate data; and (vii) focuses on central aspects of the point of sale. The general benefits include: better outlook for microenterprise and small business longevity; establishment of marketing networks; creation of value added; better quality of products and services offered; and enhanced brand value.

- 7.2 **Beneficiaries.** The project's direct beneficiaries with the franchise designs will be small and medium-sized enterprises,⁹ given the organizational requirements of successfully launching a franchise. If larger franchisors are interested in creating a microfranchise network, they will not benefit from the project directly, but their microfranchise network will, since almost all the franchisees are expected to be entrepreneurs and microenterprise or small business owners. Academic and financial institutions and franchise development service companies will also benefit from project activities.
- 7.3 **Risks.** One of the potential risks is that the group of pilot franchisors will not have the expected success in implementing the methodology. To mitigate this risk, a pilot company selection committee will be established that, in addition to the principal sponsors (Instituto Tomodati, SEBRAE, and the MIF), will include two franchise specialists who will contribute their experience and technical knowledge to the process of selecting the best proposals. Awareness events will also be held, tightly focused on promoting the microfranchise concept to companies with the desired profile. Another risk is that existing franchise providers and consultants/professionals trained in the methodology will not be able to work with and serve the companies interested in implementing microfranchises with the appropriate levels of quality and professionalism. If service quality is unsatisfactory, there are project evaluation and feedback activities aimed at adjusting the criteria for selecting consultants and training courses. The network of consultants can also serve to detect and solve any problems arising in connection with the coordination of consulting activities. Lastly, if potential participants lack resources of their own or third parties to finance the franchise structuring plans and additional investments, the project includes awareness actions to engage financial institutions that offer specific products to support the sector, in the service of the target beneficiaries.

VIII. SPECIAL CONTRACTUAL CLAUSES

- 8.1 As conditions precedent to the first disbursement: (a) a cooperation agreement will be entered into with Serviço de Apoio às Micro e Pequenas Empresas [Brazilian Microenterprise and Small Business Support Service] (SEBRAE) to provide the counterpart contribution; (b) the coordinator of the project execution unit will be named; (c) the Operating Regulations will be in effect; and (d) the annual work plan will be delivered for the first year of the project. As a special contractual condition: The intellectual property rights arising from consulting assignments to structure each microfranchise cofinanced by a businessperson will belong to such businessperson, since these rights are essential to his/her franchise.

⁹ For purposes of the project, companies will be eligible if they have fewer than 100 employees and annual sales under US\$5 million or assets under US\$3 million. They will be primarily from the goods and services trade sector.

IX. ENVIRONMENTAL AND SOCIAL IMPACT

- 9.1 The Environmental and Social Impact Review Secretariat (ESR) reviewed the project on 15 September 2008. Based on its classification as category “C,” the project is expected to have no adverse social or environmental impacts. Although the project has no particular impact on the environment, it all depends on the business to be franchised. To address the possibility of working with businesses that employ pollutants or operate in fragile environmental surroundings, it is proposed that the diagnostic assessment include issues relating to the business’s potential adverse impacts on the environment. In addition, the franchise manuals and process reengineering will specifically address environmental management. With regard to the social impact, the project will help to create entrepreneurs and new jobs.

**DEVELOPMENT OF A
MICROFRANCHISE IMPLEMENTATION METHODOLOGY
(BR-M1061)**

LOGICAL FRAMEWORK

Objectives	Indicators	Means of verification	Assumptions
Goal			
<p>To enable sustainable expansion of Brazilian microenterprises and small businesses.</p>	<p>Two years after project end:</p> <ul style="list-style-type: none"> • 80% of the franchised businesses involved in the project are still in business three years after the start of operations. • Creation of 10 new microfranchisors in Paraná, based on the indicator established in the project's replicability strategy. 	<ul style="list-style-type: none"> • Impact evaluation¹ 	<ul style="list-style-type: none"> • The economy remains stable
Purpose			
<p>To develop a microfranchise implementation methodology, primarily in the city of Maringá and the northwest region of the State of Paraná.</p>	<p>By project end:</p> <ul style="list-style-type: none"> • At least 15 franchisors establish operations with the support of at least 3 microfranchisees. • The methodology is replicated in at least 2 institutions. • Beneficiaries report a high level of satisfaction with the project 	<ul style="list-style-type: none"> • Project information system. • Midterm and final evaluations and satisfaction survey. • PSR and Final PSR • Records of the sustainability and closing workshops. 	<ul style="list-style-type: none"> • Entrepreneurs and small companies see the microfranchising system as a useful tool for business expansion.

¹ Subject to approval if implemented by the MIF.

Objectives	Indicators	Means of verification	Assumptions
Components			
<p>Component 1: Development of a microfranchising methodology</p>	<p>By project end:</p> <ul style="list-style-type: none"> • 1 microfranchising methodology implemented in at least 15 pilot franchisors, and evaluated for replication. <p>By the end of year 2:</p> <ul style="list-style-type: none"> • At least 40 consultants trained. <p>By the end of year 1:</p> <ul style="list-style-type: none"> • 3 to 5 pilot franchisors finalize consulting services for microfranchise implementation. • At least 20 consultants trained • At least 50 pilot companies reached by awareness-raising efforts. 	<p>For all components:</p> <ul style="list-style-type: none"> • PSR and final PSR • Midterm and final evaluations • Selection Committee meeting minutes • Attendance records for the various dissemination, awareness, and training events • Log of website visits • Consultant reports • Project baseline reports • Evaluation reports on training activities (consultants and businesspeople) • Training session records 	<p>For all components:</p> <ul style="list-style-type: none"> • The strategic partners maintain their consensus, vision and unified action. • Small Brazilian companies have resources of their own or third parties to implement franchise design plans. • The providers and consultants trained under the project are able to serve the companies interested in implementing franchises with appropriate levels of quality and professionalism. • Companies are committed to implementing the project for a period of 3 years. • Companies are willing to pay for the services received. • Brazilian economy maintains its growth rates (5%).

Objectives	Indicators	Means of verification	Assumptions
<p>Component 2: Methodology promotion and implementation</p>	<p>By the end of year 1:</p> <ul style="list-style-type: none"> • 100 potential franchisors made aware of the microfranchising methodology. <p>By the end of year 2:</p> <ul style="list-style-type: none"> • 5 to 6 companies franchised, with a well-defined franchising plan. • 80% of franchisors satisfied with technical assistance received. • Consultant network created and in operation. • 100 potential franchisors made aware of the microfranchising methodology. <p>By the end of year 3:</p> <ul style="list-style-type: none"> • 5 to 6 companies franchised, with a well-defined franchising plan. 	<ul style="list-style-type: none"> • PSR • Reports on awareness and publicity events • Reports on microfranchising promotion campaigns • Reports on actions taken and use of financial resources • Evaluation reports on training activities (consultants and businesspeople) • Reports on training events • Reports on business plan prepared • Technical visits 	<ul style="list-style-type: none"> • Companies are committed to implementing the project for a period of 3 years. • Monetary stability; keeping project costs balanced.
<p>Component 3: Support system for microfranchisees</p>	<p>By the end of year 1:</p> <ul style="list-style-type: none"> • At least 3 microfranchisees selected by the pilot franchisor. • 100 potential microfranchisees reached by awareness efforts. <p>By the end of year 2:</p> <ul style="list-style-type: none"> • 10 to 15 microfranchises in operation. • 5 to 10 microfranchises in the process of implementation. • 20 microfranchisees trained. 	<ul style="list-style-type: none"> • PSR • Reports on awareness events, explaining how to obtain microfranchises • Reports on microfranchise promotion campaigns • Reports on training events • Evaluation of franchisor management • Technical visits 	<p>Franchisees and franchisors remain interested in, and committed to, the project.</p>

Objectives	Indicators	Means of verification	Assumptions
	<p>By the end of year 3:</p> <ul style="list-style-type: none"> • 30 microfranchises in operation. • 1,500 individuals interested in acquiring a microfranchise reached by awareness efforts. • 25 microfranchisees trained. • 70% of the evaluated franchisors show satisfactory performance in managing their microfranchise network. 		
<p><u>Component 4: Dissemination of outcomes and lessons learned</u></p>	<p>By the end of year 1:</p> <ul style="list-style-type: none"> • Project management system in operation. <p>By project end:</p> <ul style="list-style-type: none"> • Book on microfranchising experiences in Brazil published and disseminated. • Information on microfranchising methodology and results available to the public. • 100 individuals attend international seminar. 	<ul style="list-style-type: none"> • PSR • Final evaluation • Website • Press releases • Expressions of interest from the business community • Reports on the evaluation/ongoing management system 	<p>The major stakeholders continue to show interest in the subject.</p>

Objectives	Indicators	Means of verification	Assumptions
<p>Activities</p> <p>Component 1: Development of a microfranchising methodology</p> <p>1.1 Diagnostic assessment of the microfranchising market and good practices.</p> <p>1.2 Conceptual design of the microfranchising methodology (in addition to consultant training course).</p> <p>1.3 Consultant training.</p> <p>1.4 Awareness events and visits.</p> <p>1.5 Identification and selection of pilot franchisors.</p> <p>1.6 Development, implementation, and validation of the microfranchising methodology tools.</p>	<p>Main activity milestones</p> <p>1 diagnostic assessment of the market and good practices.</p> <p>1 methodology concept designed, with its various tools.</p> <p>3 training courses for consultants and executives over 3 years.</p> <p>10 awareness events for the target public.</p> <p>1 selection committee meeting.</p> <p>1 methodology with microfranchise development tools adjusted, based on the pilot microfranchises.</p>	<ul style="list-style-type: none"> • Six-monthly progress reports • Final consulting reports • Records of awareness events • Monitoring the level of satisfaction among the companies aided • Records of consultant and executive training events • Teaching materials developed for the consultant and executive training events • Database of consultants and executives trained • Selection committee meeting minutes 	<p>For all activities:</p> <ul style="list-style-type: none"> • There is sufficient demand among SMEs for contracting technical assistance services, and they possess the resources to do so. • Professionals are interested in being trained in the main areas of the microfranchising methodology. • Companies, consultants, financial institutions, universities, and trade unions are receptive to awareness efforts and subsequent involvement in the project. • The providers accept a uniform basic framework of action as microfranchise developers. • Experts are available. • There are fiscal agents interested in financing franchisors and franchisees.
<p>Component 2: Promotion and implementation of the methodology for franchisors</p> <p>2.1 Development of a promotional campaign.</p> <p>2.2 Initial diagnostic assessments of potential franchisors.</p> <p>2.3 Microfranchisor selection processes.</p> <p>2.4 Technical assistance to companies and businesspeople who decide to</p>	<p>1 promotional campaign designed.</p> <p>100 diagnostic assessments of potential franchisors.</p> <p>10 to 12 franchisors selected, aided and assisted by the project.</p> <p>12 franchise plans prepared.</p> <p>2 forums/seminars on the subject of</p>	<ul style="list-style-type: none"> • The company's communications plan • Six-monthly progress reports • Diagnostic assessment reports • Records of awareness events • Selection committee meeting minutes • Research on the level of satisfaction of companies served 	

Objectives	Indicators	Means of verification	Assumptions
franchise their businesses. 2.5 Development of a consultant network. 2.6 Business roundtables.	microfranchises with interested consultants and executives 1 set of tools for managing the network of consultants. 2 business roundtables held in the final year of the project.	<ul style="list-style-type: none"> • Registration report on forums, seminars, and business roundtables • Documents and records on consultant management tools 	
Component 3: Support system for microfranchisees 3.1 Raising awareness and publicizing microfranchises among potential beneficiaries. 3.2 Franchisee profile compatibility assessments. 3.3 Tool for evaluating franchising opportunities. 3.4 Technical assistance for microfranchisees. 3.5 Supplemental training for microfranchisees. 3.6 Tools for ongoing support and virtual management of the microfranchise network.	30 awareness events for individuals interested in acquiring a microfranchise. 300 diagnostic compatibility assessments performed. 10 opportunity evaluations; 135 opportunity evaluations in the last year. 50 microfranchisees strengthened. 8 training courses. 3 online courses. Each microfranchising network institutes a management system for its network.	<ul style="list-style-type: none"> • Event attendance records • Diagnostic profile compatibility assessment reports • Franchise opportunity evaluation checklist • Event attendance records • Training records (courses) • Reports and documents evaluating the performance of microfranchisor management systems for microfranchising networks 	

Objectives	Indicators	Means of verification	Assumptions
<p>Component 4: Dissemination of outcomes and lessons learned</p> <p>4.1 Development of indicator baseline.</p> <p>4.2 Strengthening and creation of different dissemination methods such as project website, magazines, and bulletins.</p> <p>4.3 Participation in business and franchise fairs in Brazil.</p> <p>4.4 Case studies, books, and other means of disseminating outcomes.</p> <p>4.5 International seminar for project close.</p>	<p>By the end of month 6: Project management system designed.</p> <p>By the end of year 1: 1 website designed with all information on the project. 1 database of microfranchises in Brazil designed. Participation in 2 business or microfranchise fairs in Brazil. 2 successful case studies published. 1 book published on microfranchise experiences in Brazil. Closing seminar held.</p>	<ul style="list-style-type: none"> • Reports with project management performance indicators • Reports on and evaluation of the microfranchising system • Report on results of participation in business or franchise fair • Publications • Seminar records; seminar report 	

**DEVELOPMENT OF A MICROFRANCHISE IMPLEMENTATION METHODOLOGY
(BR-M1061)**

ITEMIZED BUDGET

BUDGET CATEGORIES	MIF US\$	Total counterpart	Total US\$	%
COORDINATION AND LOGISTICS	48,850	154,000	202,850	17.1%
5.1 Administration	30,600	126,000	156,600	
5.2 Logistics	8,250	18,000	26,250	
5.3 Consulting on administrative/financial issues	10,000	10,000	20,000	
COMPONENT I: DEVELOPMENT OF A MICROFRANCHISING METHODOLOGY	174,921	17,494	192,415	16.2%
1.1 Diagnostic assessment of the microfranchising market and good practices	10,000	3,150	13,150	
1.2 Conceptual design of the microfranchising methodology	28,500	5,000	33,500	
1.3 Consultant training	78,021	-	78,021	
1.4 Awareness events and visits	-	7,244	7,244	
1.5 Identification and selection of pilot franchisors	2,000	2,100	4,100	
1.6 Development, implementation, and validation of microfranchising methodology tools	56,400	-	56,400	
COMPONENT II: METHODOLOGY PROMOTION AND IMPLEMENTATION	180,402	80,481	260,883	22.0%
2.1 Development of a promotion campaign	-	14,500	14,500	
2.2 Diagnostic assessments of potential franchisors	-	28,900	28,900	
2.3 Franchisor selection process	-	8,200	8,200	
2.4 Technical assistance for selected microfranchisors	180,402	15,000	195,402	
2.5 Development of a consultant network	-	11,595	11,595	
2.6 Business roundtables	-	2,286	2,286	
COMPONENT III: SUPPORT SYSTEM FOR MICROFRANCHISEES	34,600	226,386	260,986	21.97%
3.1 Raising awareness and publicizing microfranchises among potential beneficiaries	-	19,385	19,385	
3.2 Franchisee profile compatibility assessments	-	22,500	22,500	
3.3 Tool for evaluating franchising opportunities	-	4,725	4,725	
3.4 Technical assistance for microfranchisees	34,600	47,776	82,376	
3.5 Training	-	62,000	62,000	
3.6 Tools for ongoing support and virtual management of the microfranchise network	-	70,000	70,000	
COMPONENT IV: DISSEMINATION OF OUTCOMES AND LESSONS LEARNED	87,227	106,573	193,800	16.3%
4.1 Indicator baseline	15,000	10,000	25,000	
4.2 Strengthening and creation of different dissemination methods such as project website, magazines, and bulletins	7,427	56,573	64,000	
4.3 Participation in Brazil's annual franchise and business fair	20,000	20,000	40,000	
4.4 Case studies, manuals and other means of disseminating outcomes	26,500	10,000	36,500	
4.5 International seminar	18,300	10,000	28,300	
SUBTOTAL	526,000	584,935	1,110,934	93.5%
6. Contingencies	10,985		10,985	0.9%
7. Midterm and final evaluations	28,000		28,000	2.4%
8. Final audit and ex post reviews	20,000		20,000	1.7%
TOTAL	584,985	584,935	1,169,919	98.5%
9. Cluster activities	15,000		15,000	1.3%
10. Impact Evaluation Account	3,015		3,015	0.3%
GRAND TOTAL	603,000	584,935	1,187,935	
Percentages	50.0%	50.0%	100%	