

MULTILATERAL INVESTMENT FUND

GUATEMALA MIF Delegation of Authority to Country Offices Plan of Operations

1. GENERAL INFORMATION

A.	<i>Project Title</i>	Promoting community innovations through scalable market-based distribution networks.
B.	<i>Project No. (TC#)</i>	GU-M1051
C.	<i>Executing Agency</i>	Soluciones Comunitarias
D.	<i>Target Beneficiaries</i>	800 inhabitants of indigenous communities in the Ixil region receiving training, 30 entrepreneurs of Solcom (poor indigenous women), and 4,000 people from Ixil region benefiting from essential products at affordable prices and their families.
E.	<i>Sources of Funding</i>	Total Cost: \$ 225,000 MIF Contribution: \$ 150,000 (67%) Counterpart Resources: \$ 75,000 (33%)
F.	<i>Objectives</i>	The expected impact of the project is to generate economic growth for marginalized populations in rural Guatemala. The expected result of the project is the implementation of the microconsignment model to improve entrepreneurial capacity and increase access to essential products and services.
G.	<i>Execution Timetable</i>	The project will be executed in 18 months The period for disbursement will be 21 months

2. BACKGROUND AND JUSTIFICATION

Problem Summary

- 2.1 The main problem that the project will try to solve is that products (both more commercial products - such as those relevant to the production activities, farming tools-, and noncommercial products -such as water filters) do not reach the people living in the Ixil region in Guatemala¹ in a consistent and affordable manner. There are several causes for this; first we can mention the high production and distribution costs of essential products due to limited products and business models adapted to the community needs and the specific local context. The residents of Ixil are extremely limited by their geographic isolation. The mountainous terrain makes travel to and from the region particularly difficult, resulting in high prices for access to many basic commodities. It is uncommon for commercial products to reach this part of the country due to high costs of

¹ Poverty affects 87% of the population in the Ixil region of Guatemala (aprox. 95,000 dwellers with 33% live in extreme poverty) and 84% of the population living in this part of the country is indigenous.

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distribution to the region's relatively small, scattered population. This isolation also contributes to a dearth of valid information about products that are useful in addressing poverty in these communities.

- 2.2 Due to high costs of transportation, local economic production is generally confined to immediate local markets with limited purchasing power, compounding the region's economic stagnation. Security concerns in rural regions further add to the costs of transporting goods to isolated regions². These costs are consequently transferred to consumers. In addition, the combination of these increased costs with a lack of sufficient demand to transport large quantities of goods has led many distributors to abandon efforts to reach these populations altogether. These realities demonstrate the need for alternative means of bringing useful products and services to underserved rural communities in the region.
- 2.3 Finally, Ixil dwellers have rarely, if ever, been presented with the opportunity to use - in an structure and guide way - their own abilities to creatively solve the problems they encounter in daily life. The quality of formal education is extremely poor in areas like Nebaj, particularly in the dispersed villages surrounding it. However, people, regardless of origin, are inherently capable problem solvers and many rural dwellers are forced to innovate regularly given the lack of available resources. Thus, targeted stimulation of the creative facility can complement their knowledge of local circumstances and common challenges in order to devise viable solutions.

Contribution of the Project to the Access Framework

- 2.4 The proposed project seeks to increase revenues for microentrepreneurs and innovators. It will also increase access to useful goods and services in underserved areas of Guatemala. As such, it will contribute to the MIF's mission to promote private sector development and foster poverty reduction.
- 2.5 MIF non-financial additionally is significant in this project. MIF's reputation and partner network (both in microfranchising and in social innovation) will enable the model to expand in other emerging Latin America markets contributing to poverty reduction and rural economic development. MIF participation will also serve as a valuable source of input for adapting the model throughout the Latin American context. Specifically, the MIF will connect the innovators and the Executing Agency Soluciones Comunitarias with best practices in the area of social innovation in the region (such as Colombia and Chile). In this respect, lessons learned from the ongoing MIF social innovation projects (such as the need to provide the innovators with mentoring, continuous support, and to connect them with distribution chains) have been incorporated in the design of the

² Companies report using 12% of operating budgets to provide security for transportation teams in Guatemala
http://www.centralamericadata.com/en/article/home/Lack_of_Security_on_Guatemalan_Roads

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project. Additionally, best practices from microfranchising projects such as Paraguay, Bolivia and Mexico, have been incorporated in terms of considering the financing of the microfranchisees and understanding the needs vs wants of the consumers, particularly in rural communities.

3. EXECUTING AGENCY AND BENEFICIARIES

Executing Agency

- 3.1 This project will be implemented by Soluciones Comunitarias (SolCom)³, a Guatemalan entity. SolCom is based in Nebaj and will be principally responsible for organizing all trainings and community campaigns, for operating and maintaining the innovation center, for providing ongoing supervision of all aspects of the project, and will contribute to the project's execution. SolCom is the primary implementer of Microconsignment (MCM) in Guatemala and currently manages the distribution of 17 products around the country⁴. SolCom entrepreneurs executed approximately 650 distribution campaigns in 2012.
- 3.2 A key partner in the project execution will be the D-Lab at the Massachusetts Institute for Technology (MIT). D-Lab is a program at MIT that aims to improve the quality of life of low-income households through the creation and implementation of low cost technologies. Like the Social Entrepreneurs Corps, D-Lab also sends students to developing countries to participate in trainings and to facilitate creative utilization of local resources, fostering innovative solutions to local problems. D-Lab's technology development experience encompasses a wide range of technologies, including community water testing and treatment, clean-burning cooking fuels, post-harvest processing, pedal and human power production, mobility aids and physical rehabilitation. D-Lab will be responsible for delivering the Creative Capacity Building (CCB) curriculum through the Training of Trainers with the SolCom staff, and for developing the appropriate indicators and assessment tools for the knowledge creation component of the project (Components 1 & 3).
- 3.3 For the purpose of the implementation of the project, Solcom will sign a cooperation agreement with D-Lab / MIT⁵. The agreement will spell out the framework for the developing of the Creative Capacity trainings in Guatemala. The terms of the agreement will specify issues such as the activities, timelines, human and financial resources, promotion of the model, knowledge management documents, trademark use, among

³ Because Solcom is a relatively new entity with limited experience in project execution, appropriate capacity strengthening and mitigation measures have been incorporated in the project documents to assure correct project implementation.

⁴ Such as cook stoves, water filters, solar lamps, among other products.

⁵ This agreement will be a condition prior in the contract.

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others. As the collaboration agreement will incorporate payments by Solcom to the D-Lab, in accordance with the Bank's Policies for the Selection and Contracting of Consultants (document GN-2349-9 and GN-2350-9), such payments will be considered direct contracting covered under paragraph 3.10.d) of the policies, which mentions an experience of exceptional value for the services as a reason for the direct contracting. To this end, there is a specific need and exceptional value in the methodology that D-Lab contributes in the project that represents exceptional value from the services provided that cannot be supplied by any other entity.

- 3.4 Considering the highly innovative methodology, the numerous urgent needs of the region, the absence of major private or public donors and the geographical isolation of the target population MIF funding is the only alternative for funding an initiative of this nature. This pilot initiative will let the foundation to expand this initiative through international donor's contribution.

Beneficiaries:

- 3.5 **Direct Beneficiaries:** The direct project beneficiaries are 800 individuals participating in CCB training, 70 new jobs (Solcom microfranchisees and innovators) that develop the new products, and additional microfranchisees that join the Solcom network. Most of the sales agents/entrepreneurs of Solcom are women. Women are also one of the main beneficiaries of the products offered by this project as main responsible in most of the households of children health and food security. Finally, the innovation workshops will promote the incorporation of women as potential innovators (ie. by developing gender sensitive materials, considering the hours of the training, facilitating child care, among other activities).
- 3.6 **Indirect Beneficiaries** include the communities benefiting from improved access to new technologies, products and/or services developed through the Community Innovation Center. Family members of microfranchisees will also benefit indirectly from their increased revenues.

4. PROJECT DESCRIPTION AND OBJECTIVES

- 4.1 **Project Description:** The project will test a model to develop market-based local community innovations, connected with a distribution network to achieve scale, in rural areas of Guatemala with a strong indigenous presence. The local innovations will bring better adapted solutions to different community problems (such as better production machines) while generating sources of income for both the innovators and the microentrepreneurs who are part of the distribution network. The confluence of two methodologies, Creative Capacity Building (CCB) and Microconsignment (MCM), will

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enable local participants to generate higher revenues, be more productive contributors to the local economy, and improve access to essential goods and services that can alleviate many causes of endemic poverty like, for instance, agricultural processing machines or eyeglasses.

- 4.2 CCB trainings provide a structured mechanism for beneficiary communities to define and articulate their needs, and to explore the creation and/or adaptation of high-impact, low-cost, household-level technologies that can help families lift themselves out of pervasive poverty. Participants, both male and female, are challenged to produce, repair and adapt technologies, and they work collaboratively to develop technologies that meet their household needs and/or to generate income. Based on experiences in other settings, participants may also begin to view technology as a vehicle for recalibrating gender-based workload imbalances. CCB suggests that the underlying principles of co-creation and crowd-sourcing – typically applied to computer software development, corporate management, or high-end product design – can be relevant to technological innovations aimed at ending poverty. Trainings build upon the skills, creativity, and local knowledge of beneficiaries to ensure that products can be made or repaired locally, and that the local context drives the choice of products introduced to each community. Moreover, participants are encouraged to focus on innovative products that address pressing local needs identified by the community.
- 4.3 The MicroConsignment Model (MCM) is a type of microfranchising model in which the products are provided by Solcom - as microfranchisor- to community microentrepreneurs - as microfranchisees - on a consignment basis. MCM delivers essential products and services at affordable prices to the rural poor in the developing world by removing high barriers to entry and empowering microentrepreneurs. Currently SolCom manages in Guatemala a network of 75 Community Advisors (microfranchisees) with over 300,000 US\$ in annual sales. Micro entrepreneurs participating in the MCM model will also serve as essential links to rural communities by providing credible information on the usefulness, affordability and other benefits of these products; because the sellers are from the communities themselves, consumers are more likely to trust this information from the start.
- 4.4 The process will start with SolCom identifying communities⁶ with high potential to develop innovations. Once the targeted communities are identified, a series of workshops on CCB will be implemented by D-Lab to develop the capacities of community members to generate technologies with potential to solve local needs. SolCom, through its network of Community Advisors, will follow up the communities and will identify the innovators in each community that have developed innovations with stronger market potential (such

⁶ The identification of the communities will be done by the direct knowledge of Solcom and the local entrepreneurs of the market.

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as a solar crop drier). The innovators will be invited to SolCom center in Nebaj for advanced training and pilot their solutions and, if needed, offer them seed capital to start production of the products. The Community Innovation Center in Nebaj (also the distribution hub of SolCom for the MCM network) is where the project will be based. It serves as an integrated workshop, demonstration site, training center, and retail shop for appropriate technologies in a centralized site, augmented by the activities of microentrepreneurs in surrounding communities. The solutions will be tested by the Community Advisors through contact with the communities. The most successful solutions will be incorporated in SolCom's portfolio as new products for the MCM portfolio. To support the distribution of the innovations, SolCom will provide financing to the microentrepreneurs through a microconsignment fund (managed by SolCom) that will provide working capital for the entrepreneurs⁷.

- 4.5 One of the main tenets of this project is to build the local capacity for innovation, technology creation and distribution. Such capabilities, if properly developed and deeply rooted in the beneficiary communities, will directly translate into the sustainability of the project beyond the life of the grant. SolCom is a financially sustainable enterprise that will continue to promote the MicroConsignment Model and manage the Community Innovation Center; innovators trained in the CCB methodology will become the next generation of trainers to spread this methodology to other communities.
- 4.6 **Impact & Results:** The expected impact of the project is to generate economic growth for marginalized populations in rural Guatemala. The expected result of the project is the implementation of the microconsignment model to improve entrepreneurial capacity and increase access to essential products and services.

The project consists of three components as described below.

Component 1: Intercultural⁸ Local Training, Creative Capacity Building and Product Design (D-Lab & SolCom)

- Initial training workshop for local trainers, facilitated by D-Lab staff.
- Program promotion and recruitment of participants interested in product design and entrepreneurship.
- Training Solcom staff in CCB and best practices to support community innovations.
- Technology demonstrations based on existing innovations.
- Identification of local needs, social issues, and constraints to addressing local problems.

⁷ The specific conditions of this financing will be defined as part of the project implementation. Currently, Solcom provides financing to the entrepreneurs using a consignment model (ie. no interest rate).

⁸ By intercultural, the project refers to targeted populations that have been traditionally excluded from educational systems due to their race (indigenous population), language, and customs.

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- Creative Capacity Building workshops that encourage product innovation and enhancing entrepreneurial and problem solving capacities.

Component 2: Implementation of MicroConsignment Distribution Model (SolCom)

- Development of a viable business model(s) allowing new/adapted technologies to be distributed to other communities in the region, providing consumers with access to tools that solve local problems and improve quality of life while also benefitting the entrepreneurs creating the products/services.
- Identification of communities that can most benefit from distribution of products and services developed through CCB and MCM.
- Strengthening the distribution channels of Solcom by developing specific skills and procedures on microdistribution of innovations.
- Distribution of products and services to regional communities.

Component 3: Knowledge Creation and Dissemination of Results (D-Lab & SolCom)

The project seeks to explore how creative techniques to identify innovative local solutions (CCB) can be combined with micro distribution models to improve the overall quality of life in rural communities. While both methodologies have been field-tested successfully, they have not been combined. In addition, the project will look specifically at the feasibility of applying the concept within indigenous communities.

The main audience of the knowledge component is the wider social innovation and development community. It will be reached through the development and dissemination of a how to guide making the case of local innovation for the creation and adoption of new technologies linked with a distribution network. The dissemination of the guide will use the websites of the partners such as the MIT network.

- 4.7 **Risks:** The primary risks of the project identified are following: (i) Lack of sufficient local demand for innovations generated through the Community Innovation Center due to difficulty in getting to the center, satisfaction with current service providers, or other cultural factors; (ii) Local needs and/or capabilities may not be conducive to generation of innovative technologies; and (iii) Difficulty in achieving cost-effectiveness of new technologies in order to make products affordable for low-income rural households. The risks will primarily be mitigated by drawing on the extensive experience of Solcom in implementing microconsignment as well as D-Lab operating in different cultural contexts around the world. The involvement of local actors throughout this project will help to ensure that products and services meet local demands and are feasible within the local socioeconomic context. CCB and MCM trainings will further prepare entrepreneurs to deliver high quality services to distant communities in the region, and cultural idiosyncrasies will ultimately have little effect on the project's success since

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entrepreneurs share local traditions and customs. Finally, the innovative approaches of CCB and the MIT D-lab program are specifically tailored to pursuing low-cost solutions to identified problems in developing countries, using local materials when possible, and sourcing other inputs in large quantities through SolCom, which reduce costs more than local entrepreneurs could achieve independently.

5. SUMMARY BUDGET

- 5.1 The table below provides a general breakdown of project costs by component and funding source. A detailed budget is included in Annex II.

Components	FOMIN	COUNTERPART	TOTAL
Component I: Intercultural Local Training, Creative Capacity Building and Product Design	87,500	5,500	93,000
Component II: Implementation of Microconsignment Distribution Model	14,000	40,000	54,000
Component III: Knowledge Creation and Dissemination of Results	2,000	12,000	14,000
Executing agency / Administrative	32,500	17,500	50,000
Ex post reviews	4,000		
Final evaluation	2,400		6,400
Contingencies	2,000		2,000
Institutional strengthening	5,600		5,600
TOTAL	150,000	75,000	225,000

- 5.2 **Sources of Funding:** The total cost is expected to be US\$225,000, of which MIF will contribute US\$150,000 (67%) in non-reimbursable technical co-operation funds. The Executing Agency commits to make the remaining funds, US\$75,000 (33%), available as counterpart resources, of which US \$37,500 will be provided in cash, and US \$37,500 will be provided in kind. The Executing Agency commits to provide all counterpart resources either directly and/or by mobilizing other stakeholder/partner agency contributions
- 5.3 **Disbursements:** Disbursements will be reviewed on an ex-post basis.

6. MECHANISMS FOR PROJECT EXECUTION

- 6.1 **Execution and Disbursement Periods.** The project will be executed in 18 months and will be disbursed in 21 months.
- 6.2 **Program Implementation Readiness.** The institutional assessment presented in Annex VII indicates that the Executing Agency has adequate capacity to implement the project.

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- 6.3 **Results-based disbursements:** The project will be disbursed in accordance with the MIF's Disbursement by Results Framework and the Performance and Risk-based Project Management modality. In this regard, disbursements of MIF resources will be processed on verification /validation of the Executing Agency's attainment of project milestones as outlined in Annex VI (Milestone Table). The first disbursement will constitute an advance of the funds required for executing the project up to Milestone 1 and will be issued when the operation is declared eligible. Eligibility will be granted upon fulfillment conditions precedent, as set forth by the General Conditions as outlined in the Governing Letter of Agreement to be executed between the IDB and the Executing Agency.
- 6.4 Subsequent disbursements will be made upon verification that milestones outlined in Annex VI have been achieved. The amount of the subsequent disbursements will be calculated based on the project's spending needs to cover the costs of the activities programmed to reach the subsequent milestone for the project up to the maximum indicated in Annex VI. Disbursements will be made when the Executing Agency requests them to continue project implementation and after it is confirmed that (i) 80% of previous advances have been justified and (ii) no milestones are pending at the time of the request. In this regard, the Executing Agency must submit evidence of the fulfillment of milestones to the MIF through the agreed means of verification before submitting the disbursement request. In the event that milestones are not reached, the MIF in consultation with the Executing Agency, will assess underlying root causes for non-attainment and take appropriate corrective measures, including but not limited to re-definition of milestones, with a written justification or cancellation of resources. The review of expenditures corresponding to the requests for disbursements will be performed on an ex-post basis
- 6.5 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). The Executing Agency will be responsible for contracting the goods and services needed for the implementation of the program following Bank's policies and procedures. Before any procurement can be initiated, the Executing Agency must submit an initial Procurement Plan to the IDB for approval. This plan will be updated annually or when there is any significant change in procurement methods or in the goods or services to be procured. Each new version must be submitted to the Bank for approval. Procurements of goods and services will be reviewed under the ex-ante modality. A Draft Procurement Plan is presented in Annex IV. Because Solcom is a relatively new entity with limited experience in project execution, appropriate capacity strengthening and mitigation measures have been incorporated in the project design to assure correct project implementation.

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- 6.6 The application of the ex-ante review modality for procurement and for the supporting documentation for disbursements can be modified by the MIF based on the results presented in the review reports and/or DNA conducted during the project execution period.
- 6.7 **Evaluation.** A final evaluation will be undertaken by a external consultant contracted by the MIF in Guatemala. 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 low income women?; (ii) have community innovators developed innovations that attract consumers in rural communities?; (iii) have the innovations effectively been marketed in poor communities?; and (iv) has Solcom incorporated the generation of community innovations as part of its microconsignment model?

7. MONITORING AND EVALUATION

- 7.1 Operational supervision and disbursement responsibility will reside with an appointed officer of the MIF in the country office of Guatemala.
- 7.2 To achieve the project deliverables, executing agencies will track progress towards a variety of benchmarks, such as: training a target number of participants through the CCB workshops; creating, building and repairing a target number of technologies; and making a target number of new technologies accessible to communities in the project area. Data collection techniques will include surveys, interviews with training participants and beneficiaries, focus groups, and direct observation, among others. All of these data will be used by project staff to make informed decision about programmatic improvements, and will be available for use by the MIF in the advance of international development practice.
- 7.3 The project will also development social impact metrics that will be useful in this and other related projects. D-Lab will take the lead on this component of the project, using baseline, formative and cumulative assessments to understand the effects of MCM on household income levels, personal and community-level motivation, and both the economic and human impacts of specific technology products. For example, D-lab will investigate how the incorporation of human-powered agricultural processing machines in underserved communities will increase the productivity and profits of farmers. The same concept may be applied to the relationship between water filters and spending on intestinal conditions. The knowledge derived from this research will serve to substantiate the expansion of future MCM initiatives by demonstrating which products present the greatest potential for cost savings in addition to their inherent impact on societal, environmental, and/or economic wellbeing.

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- 7.4 **Project Status Reports:** The Executing Agency will report on the technical progress of the project every 6 months using the MIF's on line Project Status Reporting (PSR) System. Project Status reports will be reviewed by the supervision team leader designated by MIF. The Executing Agency will be responsible for presenting Project Status Reports (PSRs) online to the MIF within thirty (30) days after the end of each semester. These reports will follow the standard PSR format and will include information on project execution, achievement of milestones, and completion of project objectives as stated in the logical framework (as presented in Annex I) and other operative planning instruments. The PSR will also describe project issues encountered during execution and outline possible solutions. Within ninety (90) days after the end of the execution term, the Executing Agency will submit a final Project Status Report to the MIF, which will highlight results achieved, project sustainability and lessons learned.
- 7.5 **Financial Management:** The Executing Agency will be responsible for the financial administration of the operation including: (i) administering the project resources; (ii) the implementation of an adequate internal control system; (iii) the establishment and maintenance of adequate accounts that facilitate the reporting of project funds according to source of funding and categories of investment; (iv) maintenance of a proper records management system; (v) preparation and submission of disbursement requests to the IDB and the corresponding justification of expenses; (vi) preparation of financial statements regarding the Program's expenses, and a semi-annual financial report. It also will prepare a project financial statement at the end of the project. Independent auditors will be contracted by the Executing Agency under the guidance of the MIF/IDB to carry out the audit of financial statements as well as, reviews of the procurements processes and supporting documentation for disbursements if necessary. The cost for these audits will be financed with the MIF contribution.

8. KNOWLEDGE-SHARING AND DISSEMINATION STRATEGY

- 8.1 Due to the limited financial and technical scope of the project, knowledge-sharing and dissemination has been embedded as a project component. In this regard, details of the knowledge products, key stakeholders/target audiences and dissemination strategy are included in the description of Component III – Knowledge Creation and Dissemination of Results in Section 4.

9. APPROVAL

This project is recommended and approved for financing under the MIF Program of Delegation of Authority (MIF/GN-62-7).

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Recommended By:

Date:

César Buenadicha
Project Team Leader

Approved By:

Date:

Annexes:

- I- Logical Framework -
- II- Detailed Project Budget -
- III- Project Execution Schedule -
- IV - Procurement Plan -
- V- QED –
- VI – Milestone Table –
- VII – Institutional Assessment of Solcom