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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

DOMINICAN REPUBLIC

PROJECT PAPER

RURAL SAVINGS MOBILIZATION

AID/LAC/P-163

Loan Number: 517-0179

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)

Amendment Number

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: DOMINICAN REPUBLIC

3. PROJECT NUMBER: 517-0179

4. BUREAU/OFFICE: USAID/DR - LAC 05

5. PROJECT TITLE (maximum 40 characters): Rural Savings Mobilization

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 08 DD 19 YY 86

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 83 B. Quarter 4 C. Final FY 84

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(250)	( )	(250)	(438)	(62)	(500)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)					792	792
TOTALS	250		250	438	854	1,292

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) FN	240	043				250		500	
(2)									
(3)									
(4)									
TOTALS						250		500	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BR	EGEN	COOP				
B. Amount	43%	100%	50%				

13. PROJECT PURPOSE (maximum 480 characters)

To demonstrate the feasibility of mobilizing savings in rural areas.

14. SCHEDULED EVALUATIONS

Interim MM 11 YY 84 | MM YY | Final MM 06 YY 86

15. SOURCE/ORIGIN OF GOODS AND SERVICES

[X] 000 [ ] 941 [ ] Local [ ] Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment)

17. APPROVED BY

Signature: Ronald F. Venezia

Title: Ronald F. Venezia, Acting Mission Director

Date Signed: MM 07 DD 18 YY 83

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

PROJECT AUTHORIZATION

NAME OF COUNTRY : Dominican Republic

NAME OF PROJECT : Rural Savings Mobilization

PROJECT NUMBER : 517-0179

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Rural Savings Mobilization project for the Central Bank of the Dominican Republic (Grantee) involving planned obligations of not to exceed Five Hundred Thousand United States Dollars ($500,000) in grant funds over a three year period from the date of authorization, subject to the availability of funds in accordance with the AID OYB/allotment process, to finance the foreign exchange and local currency costs for certain goods and services required for the project as described in the following paragraph. The planned life of the project is three years.

2. The project consists of a pilot effort to demonstrate the feasibility of mobilizing voluntary savings in rural areas. Project activities will include, but not be limited to (a) savings mobilization campaigns to be carried out in up to eight pilot areas, using in-place personnel and infrastructure of Dominican institutions, such as the Agriculture Bank

and the Dominican Federation of Savings, Credit and Multiple Services Cooperatives, their branches and affiliates; (b) the preparation of reports and studies related to the operation of financial markets in the Dominican Republic; and (c) the dissemination of the results of the savings workshops, seminars and publications to Dominican public and private sector financial institutions and policy-makers.

3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with AID regulations and Delegations of Authority, shall be subject to the following terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

(a) Source and Origin of Goods and Services

Commodities financed by A.I.D. under the project shall have their source and origin in the United States and the Dominican Republic, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the United States or the Dominican Republic as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed under the Grant shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

(b) Conditions Precedent to Initial Disbursement

Prior to any disbursement, or issuance of any commitment documents under the Project Agreement, the Grantee shall, except as

A.I.D. may otherwise agree in writing, furnish in form and substance satisfactory to A.I.D.:

(i) evidence that a full time Project Coordinator has been appointed for the life of the project with adequate staff and equipment to support the administration of the project.

Ronald F. Venezia

Ronald F. Venezia, Acting Director

Aug 18, 1983

Date

Drafted by: TCarter/RLA:mr:cmk:6-22-83
Revised by: DDeWitt/CRD DD

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RVenezia/DD

ARDO:RCastro RC

DOMINICAN REPUBLIC - PROJECT PAPER

RURAL SAVINGS MOBILIZATION

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GLOSSARY

GODR	Gobierno de la Republica Dominicana (Government of the Dominican Republic).
AID	United States Agency for International Development.
BAGRICOLA	Banco Agricola (Agricultural Bank)
BAGRICOLA/B	Agricultural Bank Branch
BANCOOP	Banco Nacional de Cooperativas (National Bank for Cooperatives)
Central Bank	Banco Central de la Republica Dominicana.
CB/FD	Departamento Financiero del Banco Central (Finance Department, Central Bank).
CB/ESD	Departamento de Estudios Economicos del Banco Central (Economic Studies Department, Central Bank).
FEDOCOOP	Federación Dominicana de Cooperativas de Ahorro, Crédito y Servicios Múltiples (Dominican Federation of Savings, Credit and Multiple Services Cooperatives).
FEDOCOOP/CU	Credit Union members of FEDOCOOP.
ISA	Instituto Superior de Agricultura (Superior Agricultural Institute, Santiago, D.R.)
ISA/CADR	Centro de Administración del Desarrollo Rural (Center for Administration of Rural Development).
Monetary Board	Junta Monetaria
ONAPLAN	Oficina Nacional de Planificación (Central Planning Office), Secretaría Técnica de la Presidencia.
OSU	Ohio State University, USA

RFMS	Rural Financial Markets
RSMP	Rural Savings Mobilization Project
RuSaMAC	Rural Savings Mobilization Advisory Council
RSM/CO	Coordinator's Office, Rural Savings Mobilization Project, Central Bank
SEA	Secretaría de Estado de Agricultura (Agricultural Secretariat)
SEA/AESD	Departamentos de Economía Agropecuaria y Estadística, Secretaría de Estado de Agricultura (Agricultural Economics and Statistics Departments)
TSP	Secretaría Técnica de la Presidencia (Technical Secretariat of the Presidency).
UCMM	Universidad Católica Madre y Maestra (Catholic University, Santiago, D.R.)
USAID/DR	United States Agency for International Development's Mission to the Dominican Republic, Santo Domingo, DR
USAID/ARDO	USAID's Agriculture and Rural Development Office, Santo Domingo, DR

I. SUMMARY AND RECOMMENDATIONS

A. Face Sheet

B. Recommendations

The Project Committee recommends that the Director, USAID/Santo Domingo, approve the following grant to finance the Rural Savings Mobiliz-tion Project.

<u>AID Grant</u>	$ 500,000

U.S. dollars will finance technical assistance and the purchase of commodities (vehicles and equipment).

<u>Counterpart Contribution</u>	$ 792,000

Counterpart contribution will be in local currency resources ($650,000) and in kind contribution ($142,500) by participating institutions. The counterpart will be used for locally available technical assistance, the savings campaign, research support, operational support and dissemination of research fundings.

<u>Project Total</u> (Including counterpart)	$1,292,000
<u>Implementation Period</u>	3 years

C. Summary Project Description

1. Project Summary

The Project is designed as a pilot effort, to demonstrate the feasibility of mobilizing voluntary savings in rural areas of the Dominican Government. An additional key objective is to demonstrate that further liberalization of interest rate policies is desirable and that interest rates should adequately reflect the price of money as set by the market forces of supply and demand. The Agricultural Bank (BAGRICOLA) and some cooperatives associated with the Federation of Credit and Savings Cooperatives (FEDOCOOP) will participate in the savings mobilization campaign. In addition, research and investigation will be carried out in several areas such as informal financial systems, transaction costs, the operation of rural financial markets, loan repayment problems, the overall supply of agricultural credit and interest rate and other financial policies. Various Dominican institutions, public amd private, will be involved in the research activities with the technical assistance of Ohio State University (OSU). Among these will be Central Bank, the BAGRICOLA, the Catholic University (UCMM), the Superior Agricultural Institute (ISA), and the Agricultural Secretariat (SEA). As a result of the savings mobilization and research activities a series of reports will be prepared for the Central Bank, the Monetary Board, and others at the policy level of the GODR. In addition, seminars and workshops will be held at both the technical and policy levels, to disseminate project findings. A final report with recommendations will be prepared for the Central Bank and the Monetary Board. The research portion of the project will be implemented through local institutions in close association with the AID/Ohio State University centrally funded Cooperative Agreement on financial markets. The demonstration, testing and management component will be implemented through the provision of long-term and short-term technical advisory services, training of Dominicans will be arranged under the AID/OSU Cooperative Agreement. Additional support for on-site administration and management will be in part provided through resources of the U.S. Peace Corps.

2. Summary Findings

The Project Commitee has reviewed the project for its institutional, financial, economic and social viability. The Committee believes that the Project as developed, can lead to the mobilization of savings in rural areas and further the knowledge of rural financial markets in the Dominican Republic, through research and analysis. It is anticipated that the sults of the savings mobilization and research activities may lead to a positive impact on interest rates and other financial policies in the country.

D. Project Committee

Mission Project Committee

Ron Venezia, Deputy Director
Ken Ellis, ARDO
Roberto Castro, ARDO
Steve Miller, ARDO
Tim Hammann, CRD
Debra DeWitt, CRD
Cecile Adams, CON
John Chang, OPE
Henry Welhouse, OPE

Ohio State University

Claudio Gonzalez - Vega
Donald Larson
Dave Hansen
Peter Vogel

Consultants

Onofre Torres, Interamerican Management
Blair Allen, Private
George Wohanka, Private
Robert Vogel, Syracyse University

II. BACKGROUND

During the 1960's and 1970's the Dominican Republic experienced a significant development of its financial markets, reflected by a rapid growth of credit volumes, in real terms, and the creation of numerous financial institutions serving various sectors of the country's economy. This progress was due mostly to price and exchange rate stability and to the adequate leadership of the Central Bank in promoting and supervising the financial system. In addition, substantial resources were channeled by external agencies, including AID, the Inter-American Development Bank (IDB), the World Bank (IBRD) and other donors, to investment and production activities.

An important proportion of the domestic and foreign resources were devoted to the agricultural sector and, as a consequence, the ratio of agricultural credit to gross domestic product from agriculture increased from 10.5 percent in 1965 to 19.8 percent in 1976. Despite this progress, this ratio was still low when compared to other Latin American countries (exceeding 50 percent in Costa Rica, Nicaragua, Mexico, Brazil, etc.) That is, most of the development of the financial system during this period in the Dominican Republic was an urban phenomenom. As reflected by the ratio of credit to output in the agricultural sector, too small a flow of formal loans was reaching the rural economy.

During the late 1970's and the 1980's this progress of the financial sector has been reversed. In real terms, the volumes of resources mobilized and the amounts of credit granted have declined. The amount of credit for the agricultural sector has contracted disproportionately, compared with the economy as a whole. Thus, lack of credit has become an important obstacle to increased production and improved productivity in rural areas, at a time when the whole economy is subjected to an important liquidity constraint. The ratio of credit to output in the agricultural sector has declined, further reducing the access of the rural population to formal financial services. Financial policies have not adjusted rapidly to the new inflationary environment and, as a consequence, an increasingly large informal financial sector has flourished. Placed in the position to pay attractive rates of return on savings, this shadow market has successfully attracted resources from some of the institutions of the formal market and is actively competing with the intermediaries subject to the regulations of the Central Bank. Although informal financial markets in the past have been very active in the rural areas, the high profitability of the new informal institutions in the urban areas may be draining the informal rural markets as well. Thus, the agricultural sector is not only receiving less attention than in the past from the formal financial sector, but it may also be obtaining less resources from informal lenders as these move their funds to the profitable markets in the urban centers.

In summary, the substantial progress of the Dominican financial system has stopped and may have even reversed itself. Fewer resources are being made available to rural producers and investors, both on-farm and off-farm, from the formal financial sector and possibly also from traditional informal sources. Rural development requires the provision of financial services. This project attempts to demonstrate the possibility to mobilize resources in rural areas and to improve the operation of financial intermediaries in these areas to increase their ability to finance production and investment in agriculture.

A. Perceived Problem and Constraints

Formal financial institutions in the Dominican Republic provide few services to individuals living in rural areas and especially to the rural poor. Many larger towns in the Dominican Republic do not have even one commercial bank office, and some have no credit union or agency of the Agricultural Bank. Individuals living in such areas are cut off from formal financial institutions unless, they are willing and able to pay the explicit travel costs and other implicit costs (i.e. time) to reach a larger town where such institutions have been established. In those areas where formal financial institutions do exist, many individuals, and especially the rural poor, may still not have access to financial services because they are not considered credit-worthy. Moreover, existing financial institutions may not provide adequate deposit facilities. Individuals without access to formal financial services are forced to rely on informal sources. Although there are many stories about the mistreatment of the rural poor by moneylenders, very little is known about the size, scope and efficiency of the operations of informal financial markets in the Dominican Republic.

The lack of formal financial services for rural inhabitants is widely recognized to be a serious problem that restricts production in rural areas and diminishes incomes. Unfortunately, the traditional approach to this problem has not helped and may have even made the situation worse. The traditional approach has relied on the infusion of cheap funds to be on-lent at low, subsidized interest rates and targeted to specific production activities and to the rural poor. The 1973 Spring Review of Small Farmer Credit and subsequent work by the rural finance group at Ohio State University and others has shown that this approach does not work. Because credit is fungible, loans cannot be targeted to specific production activities even with costly systems of credit supervision. Financial institutions cannot remain viable if they continue to charge low interest rates on loans to the rural poor, because this is precisely the most expensive group to reach. High transaction costs are passed on to these borrowers, and other rationing devices arise as financial institutions struggle to remain viable, while richer borrowers scramble to gain access to the subsidized loans. Borrowers complain of high transaction costs and poor service. This reduces repayment performance.

The willingness and ability of financial institutions to participate in savings mobilization activities depend, among other things, on interest rate policies, reserve requirements, and access to cheap resources such as rediscount lines at the Central Bank. At present, financial institutions can pay from 5 percent to 10 percent per year on short-term savings, depending on the exact period of the deposit and on the type of financial institution. Formal financial institutions can charge up to 14 percent per year on loans, plus a commission that can be as high as 6 percent in some cases and be charged more than once in others. This appears to allow a sufficient margin for commercial banks, development financieras and the Agricultural Bank to operate in rural areas as mobilizers of savings deposits and suppliers of credit. Transaction costs in rural areas are high for these institutions. Research under the project will attempt to measure these costs and to suggest innovations that could substantially reduce them in order to increase the coverage of these institutions. In addition to the important fact that a widely dispersed rural clientele of small savers is more costly to deal with, and that the same group is also more risky and costly to deal with as borrowers, there are two other reasons why financial institutions have not operated in the rural areas.

The first affects the commercial banks and is related to reserve requirements. Although reserve requirements are usually thought to be simply devices for monetary control, they also serve as a tax on financial institutions, and ultimately on savers and borrowers. Financial institutions are forced to leave part of their resources in idle balances (usually at the Central Bank) earning little or no interest and/or to invest in certain financial instruments with low rates of return (usually government bonds or loans to some priority sector). The system of reserve requirements in the Dominican Republic is highly complex and need not be discussed here except to note that its effects fall relatively heavily on commercial banks. This, combined with high costs of mobilizing rural deposits and the availability of cheaper sources of funds elsewhere, has made it unattractive for commercial banks in the Dominican Republic to open rural offices and to promote rural savings.

The second main reason that formal financial institutions have not seriously attempted to mobilize rural savings is the availability of cheap resources. This explains why development financieras are clustered around the Central Bank where the Fondo de Inversiones para el Desarrollo Económico (FIDE) can conveniently be reached, rather than being located in rural areas. This also explains why the Agriculture Bank has had little interest in rural savings mobilization and has offered no deposit services. Now, however, the Agriculture Bank seems to realize that cheap external resources are not going to be adequate to meet its objectives and that it will be necessary to mobilize its own domestic savings for additional funds and perhaps to rely primarily on deposits for its resources.

B. Interest Rate Policy

During the late 1970's and early 1980's the Dominican Republic suffered rates of inflation higher than those traditionally experienced. This has led to a deterioration in the ability of formal financial institutions to mobilize voluntary domestic savings, given the low interest rates and relatively high reserve requirements established by Monetary Board regulations. Low interest rates on savings (e.g., 5% per year on deposits at commercial banks) have not been adequate to compensate savers for inflation and for the opportunity cost of their funds. Low and often negative real rates of interest on domestic savings deposits have also led to problems of capital outflows as savers have sought to place their savings in the United States and other foreign countries where higher rates of interest can be obtained. This is reflected by the deterioration of the peso/dollar exchange rate.

Official figures for inflation indicate that the rate of increase in price levels in the Dominican Republic has been moderate relative to that of other developing countries. During the late 70's oil price increases and expanded domestic credit contributed to higher rates of inflation, whereas the 1981-82 worldwide recession, recent low commodity export prices and the loss of international monetary reserves have resulted in somewhat lower levels of inflation for the last two years. Unofficial estimates of the real rate of inflation tend to support the official figures published by the Central Bank.

OFFICIAL ESTIMATES OF INFLATION

(Source: Central Bank July 29, 1982)

1978-79	9.2%
1979-80	16.8%
1980-81	7.5%
1981-82 (estimated)	9.6%

In late 1982 the Monetary Board increased regulated interest rates somewhat for the Dominican Republic's formal financial institutions. The main purpose of these interest rate increases is to improve domestic savings mobilization, to reduce capital outflows and perhaps encourage capital inflows. Whether or not this has been successful depends primarily on the expected rate of inflation in the Dominican Republic, interest rates in the United States, the expected behavior of the exchange rate between the Dominican peso and the U.S. dollar, and interest rates in the shadow markets. There are various reasons to believe that these interest rate increases may not be adequate to achieve these objectives fully. For this reason one purpose of this project is to demonstrate to Dominican policy makers, especially the Monetary Board, that further liberalizations of interest rates may be desirable.

C. Rural Financial Institutions

The main financial institutions providing services to the rural sector are the Agricultural Bank, the Central Bank, the rural cooperatives and the Dominican Development Foundation (FDD). The Agricultural Bank has been the main source for agricultural credit. The Central Bank through its FIDE program has been financing agricultural and livestock activities. Other financial intermediary institutions, like the Financieras de Desarrollo, so far have not shown interest in attracting rural savings, mainly because of the attractive FIDE interest rate policy. Among the rural cooperatives, many associated with FEDOCOOP have been offering credit and some savings services to the rural poor. The Dominican Development Foundation is also reaching the rural poor but only in the provision of credit. The FDD does not have legal authorization for capturing savings from its clientele.

1. Agricultural Bank

Attempts by the Agricultural Bank to reach its target group have resulted in high rates of loan delinquency and default, substantial operating losses, and a concentration of credit into larger loans to fewer borrowers. Agricultural output has failed to increase because inadequate prices make increased agricultural production unattractive, and fungible credit flows into another activities. In addition, Agricultural Bank currently provides no deposit facilities for savers, because it finds it more attractive to deal with international donor agencies and the Dominican Government to obtain resources than to provide adequate incentives to capture rural savings. Commercial banks do not have offices in many of the towns served by the Agricultural Bank. Rural borrowers have been unattractive to them because the controlled low interest rates on agricultural loans do not compensate for the risks and transaction costs involved. It is also unattractive for commercial banks to capture savings in rural areas because of the higher costs of operating with many small deposits, part of which must be left as required reserves at the Central Bank, and the remainder can be on-lent only at low controlled rates of interest.

Another major constraint has been the bureaucratic nature of BAGRICOLA. Due to its size, and public nature as a development bank it has been difficult to introduce major policy changes. However, the project will attempt to induce policy changes through testing and demonstration of savings mobilization and policy dialogue.

2. Cooperatives and Credit Unions

Credit unions have also failed to significantly expand their services in the rural areas of the Dominican Republic. Some have remained small and conservative, relying on capital contributions of members for resources and lending out only small amounts to each member in relation to his capital contribution and thereby turning the low stated interest rates on loans into very high effective rates. Other rural credit unions have sought cheap external resources through the credit union federation (FEDOCOOP) or the cooperative financiera (FICOOP) for on-lending to members at subsidized rates of interest. These latter credit unions have, almost without exception, encountered the same problems as other financial institutions that rely heavily on cheap external resources: operating costs substantially in excess of interest income, severe repayment problems, and decreasing financial viability. The fact that such problems exist throughout the developing countries of Latin America clearly indicates that this is not just a matter of weather, disease or other problems facing agricultural producers but rather a basic inadequacy in the traditional approach to rural financial markets.

Dominican cooperatives in general are weak administratively and financially, although those choosen for the project have strong managers and less delinquency than others. Problems related to the opening of a savings window in the credit unions and the efficient and effective use of these funds are recognized, but these problems are not viewed as insurmountable. Solutions to these problems exist and have been adequately demonstrated throughout the world. These solutions may be applicable to the Dominican Republic and the project will test their effectiveness in this country. Substantial technical assistance will be required to include the adoption of these institutional reforms.

D. The AID Approach

1. Relationship to AID Policy

The AID Policy Paper, dated November 1982, Pricing Subsidies and Related Policies on Food and Agriculture emphasizes that the basic role of financial institutions is to lower the transaction costs of matching savings with investments. AID's primary objective in the area of credit and finance should therefore be "to create and support a system of financial institutions that effectively mobilizes and allocates private indigenous financial resources." Further, USAID's "should support elimination of controls of interest rates, so that rates will be set at market clearing levels through financial intermediation, rather than at arbitrary levels by governmental edict." The USAID, through its support of the proposed project activities further described in this Project Paper (PP) clearly supports AID Policy in the area of agricultural pricing and resource allocation.

2. Relationship to the USAID Development Strategy

Agriculture, the most important sector in the Dominican economy, accounts for approximately one-fifth of GDP and 60 percent of national employment. The objective of the USAID Agriculture strategy is to increase production on land worked by small farmers, because the key to increasing the overall agricultural growth rate is the 340,000 small farm families working 450,000 hectares of land.

The small farmer faces many constraints to increased production, among which are poor soil and water management, low utilization of modern inputs, inefficient marketing of agricultural commodities, limited access to financial institutions, a lack of research on problems peculiar to the small farmer and an unfavorable policy environment.

Although the policy environment of small farm agriculture has improved notably in recent years, there remain a number of policy obstacles to improved agricultural performance and especially to small farmer performance. These policies limit incentives, discourage savings, reduce the flow of private resources to agriculture and distort the allocation of scarce resources by channeling investment to lower risk, lower priority uses. Interest rate policy has been one of the problem areas. Low interest rates discourage rural savings and draw financial resources from rural areas.

While largely concerned with the natural resource base, the AID strategy also focuses on input needs, as well as financial services and technical know how. Credit remains a problem since no more than 20 percent of the total number of producers are receiving institutional loans. Neither the USAID, the GODR or the other international donors are able to provide adequate credit for small commercial farmers. Subsistence farmers do not benefit from access to formal sources of credit. In general, the rural poor do not have access to deposit services. The rural savings mobilization project will encourage savings in rural areas so that local resources can partially cover credit demand and so reduce the need for external credit resources. The USAID's strategy in the area of policy is one of providing technical and financial support to strengthen desirable trends in GODR thinking and to bolster institutional units which express and promote these desirable trends. This proposed project, although modest in scope and funding requirements (US$500,000 grant), is deemed by the USAID to be key in the agricultural development and policy process. The project is designed to test private sector involvement and strengthen selected rural financial institutions.

The focus on voluntary savings mobilization has three basic justifications: (1) possible improvement of income distribution, (2) better resource allocation, and (3) increased viability of financial institutions. Currently, the rural poor do not have access to deposit facilities for their savings and hence are forced to hold idle cash or inflation hedges - that are likely to earn negative rates of return in real terms - as a reserve against possible emergencies. A project that focuses on voluntary savings mobilization will offer deposit facilities with good service, low transaction costs and attractive interest rates in real terms. Resource allocation will be improved as idle cash and investments in unproductive inflation hedges are drawn toward those financial institutions that can offer the best service and highest interest rates because of their efficiency in on-lending these resources. To the extent that the Central Bank and other Dominican institutions monitor the on-lending of these resources they will be able to discover where rates of return are highest and thus become aware of the need to improve price incentives for the agricultural sector, if they judge that not enough resources are flowing toward that sector. Increased viability of financial institutions will come from the increased capability to tap internal resources and lessen their dependence on continual infusions of cheap resources from the government and international donors. In addition, financial institutions will have better information from which to select borrowers based on their prior behavior as depositors, and repayment should also be improved by the knowledge that resources come primarily from local residents, not some distant government agency or international donor.

E. Previous Experience in Saving Mobilization

Until recently almost all of the experience with rural savings mobilization efforts had been acquired in the context of Asian countries. The Ohio State University team, through an earlier Cooperative Agreement with AID/Washington, examined and participated in some of these Asian efforts, particularly in Taiwan, South Korea and the Philippines. More recently, Ohio State researchers have been participating in the design and implementation of rural savings mobilization efforts in Indonesia and Bangladesh. Under the new Cooperative Agreement, savings mobilization projects will be developed by Ohio State in one Asian country and one African country yet to be determined.

The Ohio State University has also been associated with two important experiments in Latin America. Under the auspices of the earlier agreement, a successful pilot savings mobilization project was carried out in Peru from mid-1979 through mid-1981, involving the National Bank for Cooperatives (BANCOOP).

1. Peruvian Experience

The main purpose of the Peru Savings Mobilization Campaign project was to assist the new BANCOOP offices in Huancayo and Tingo Maria to mobilize additional savings and, through BANCOOP, to assist the credit unions in the two target areas with their savings mobilization activities. The key element in successful savings mobilization was seen to be interest rates high enough to be attractive to savers and hence to permit BANCOOP and the credit unions to capture resources that could be lent profitably to borrowers. In addition, the project was to identify other factors that could contribute to successful savings mobilization and to demonstrate, not only to other BANCOOP offices and credit unions in other areas of Peru, but also to financial institutions throughout the less developed world, that voluntary savings can successfully be mobilized in low-income areas if proper incentives are present.

In order to understand the accomplishments of the project, it is important to note that BANCOOP initiated its savings mobilization activities in the two target areas of Peru in late 1979 in an extremely adverse economic environment. In addition to rapid inflation, the Peruvian economy had shown no real growth in several years, and BANCOOP also faced potentially formidable competition from financial institutions including commercial banks. Nevertheless, by mid-1980 each of the BANCOOP target offices had already mobilized far more than the overall mid-1981 goal of $150,000. The growth in time and savings deposits, whether deflated to real Soles or converted to dollars, continued beyond the end of the project and spread to BANCOOP offices outside the target areas. By October, 1981, these deposits were equal to more than US $1 million for the Huancayo and Tingo Maria offices and more than US $5 million for all of BANCOOP. The success of savings mobilization, beginning in Huancayo and Tingo Maria, changed the financial structure of BANCOOP, as time and savings deposits surpassed substantially demand deposit balances. Furthermore, according to figures from the Superintendent of Banks, deposits at BANCOOP grew far more rapidly during 1980 and 1981 than deposits at commercial banks or other financial institutions.

Analysis of the BANCOOP experience clarifies certain factors that appear to be crucial for successful savings mobilization. First is the payment of high interest rates on time and savings deposits, in order to compete with other financial institutions and to draw resources away from inflation hedges and cash hoards. Regulated interest rates on deposits continued to be negative in real terms throughout 1979 and 1980 and were thus not as effective an incentive as they might have been. The rapid growth of time and savings deposits at BANCOOP during 1981, especially relative to demand deposits, was related to the substantial increase in interest rate ceilings at the beginning of 1981.

Confidence of depositors in a financial institution and good service for these depositors are other factors that were crucial for successful savings mobilization. Accepting the premise that good service and, to some extent, depositor confidence, depend on employee performance, which in turn depends on employee morale and appropriate incentives, BANCOOP's savings campaigns included specific incentives for employees tied to the amount of time and savings deposits mobilized.

Effective savings mobilization campaigns were also crucial to BANCOOP's success. In addition to incentives for employees, the three campaigns run during 1980 had two other important features:

effective publicity and attractive prizes. The first campaign, which began in December of 1979 and ran through mid-January, involved free instant photographs for those who deposited small amounts, a raffle of cameras, and free cameras for those who made large time deposits. The second, which ran from early February until April, involved a raffle of school supplies and bicycles, free school supplies for small deposits, and free bicycles for large time deposits. The third, which began in July and ran until September, featured raffles of color television sets and other electrical appliances and immediate prizes of these articles for those who made large time deposits. The increases in time and savings deposits were unusually large during most of the campaign periods.

Two other aspects of the AID-BANCOOP project merit brief discussion: BANCOOP's lending performance and savings mobilization by credit unions. Under the impact of inflation BANCOOP drastically shortened the maturity of its loan portfolio and shifted away from cooperatives and toward non-members, both businesses and individuals. Successful savings mobilization allowed BANCOOP to expand its lending to cooperatives and to the agricultural sector in real terms since the beginning of the project.

2. Honduran Experience

In addition to the previous experience, two similar projects are currently being carried out in Honduras with great success. One of these projects deals with savings mobilization by the overall financial system. It has implied policy revisions in connection with interest rates and other major macro-economic questions, as well as technical assistance to private commercial banks and reductions in transaction costs. Substantial information about the operation of rural credit markets and financial institutions has been used in modifying rules and procedures for the benefit of the participating institutions as well as their clients.

Another related but separate project has assisted the Honduran Federation of Credit Unions (FACACH) and a selected number of its affiliated credit unions with savings mobilization and other financial activities.

3. Lessons Learned

Several important lessons have resulted from these projects: a) rural savings can be mobilized, even in extremely adverse economic environments, as shown by the Peruvian experience; b) the payment of high interest rates on time and savings deposits is crucial, in order to successfully compete with other financial institutions and to draw resources away from inflation hedges; and c) confidence of depositors in the financial institution is crucial. This confidence, in turn, is strongly affected by the institution's financial viability, as perceived by potential depositors. d) Good service, low transaction costs, and access to the whole scope of financial activities is crucial for successful savings mobilization. Access to opportune and sufficiently large loans is the most important incentive. e) Good service and, to some extent, depositor confidence depend on employee performance which in turn depends on appropriate incentives. Savings campaigns have usually involved specific incentives both for savers and for the institution's employees.

In the long-run however, the success of the savings mobilization effort has to be measured by its contribution to the financial viability and institutional strength of the lender. This requires technical efforts much beyond the savings campaigns themselves. Otherwise, high default and poor portfolio and liquidity management will soon destroy the gains in savings collection.

The importance of these considerations can be examined in the light of the experience of BANCOOP. One year and six months after the completion of the successful pilot savings mobilization project, BANCOOP had mobilized over US $10,000,000 through all of its branches. Unfortunately the misuse of the funds, which were concentrated on six large borrowers that defaulted, led the Peruvian government to temporarily intervene in the management of institution. This only confirms that it is indispensable to strengthen the institution's capacity in administration and management of funds and of its loan portfolio.

In the Honduran project, a detailed analysis of the participating credit unions focusing on their interest rate policies, loan delinquency problems, liquidity management capabilities and previous experience with savings mobilization has preceded the savings campaigns. Based on these evaluations, six credit unions were selected and are currently implementing savings mobilization activities. Additional credit unions are being prepared for participation at a later stage. Studies of cash flow patterns at the participating credit unions have been very useful in improving liquidity management.

In addition, planning is currently underway for the establishment of a liquid reserve fund at FACACH to assist the participating credit unions with their liquidity management. This is another feature that the present project can adapt from previous experiments. In summary, after the Peru and Honduras experience many problems have been anticipated in the design of the present project, but much research and testing is still required to guarantee the successful adoption in the Dominican Republic of these technical achievements.

III. PROJECT DESCRIPTION

A. Project Goal and Purposes

The goal of this project, which supports others in the USAID/DR portfolio, is to increase agricultural production and incomes of the rural population, particularly the rural poor. This will be achieved by improving the viability of the financial institutions that serve the rural areas and by expanding the access of the rural population to deposit and credit services.

The project's two subgoals are: 1) to make rural financial institutions more responsive to rural development needs and 2) to broaden access to savings and credit services of the rural population.

As a pilot project, its purpose is to demonstrate the feasibility of mobilizing voluntary savings in the rural areas. This project will attempt to suggest the desirability of major changes both in the internal financial management of participating institutions and in the set of aggregate financial policies, including interest rate policies. It is expected that an improvement of rural financial markets will lead to a more efficient allocation of resources, increased viability of financial institutions and a more equitable income distribution.

B. Project Activities

The activities of the project fall into three groups:

For pilot savings mobilization efforts, four branches of the Agricultural Bank and four credit unions have been tentatively selected for savings campaigns in the rural areas. Othèr offices of these institutions or other financial intermediaries may be included later as the project progresses. Prior to the savings campaigns participating institutions will be strengthened in their portfolio management, liquidity management, and loan collection activities through significant inputs of technical assistance from Ohio State University.

A series of in-depth studies of formal and informal financial markets, transaction costs, savings behavior and financial policy questions will be undertaken. This effort will include the monitoring and evaluation of the pilot savings mobilization activities. To establish rural financial markets research capability, key Dominican institutions will receive substantial technical assistance from Ohio State University.

Dissemination of the project results, which will be carried out through case studies, seminars, workshops, publications and public discussion, will involve key Dominicans influential in the financial-monetary policy making process. Reports on the results will be prepared by all participating institutions.

Integration of policy making Dominican institutions will be accomplished through the formation of a Rural Savings Mobilization Advisory Council (RuSaMAC). This Council, made up of members representing the Central Bank and Technical Secretariat of the Presidency (TSP), will provide guidance to the project Coordinator in carrying out the aims of the project.

1. Pilot Rural Savings Mobilization

The pilot rural savings mobilization activities will tentatively involve a limited number of branches of the Agricultural Bank and credit unions. Intensive preparation of these intermediaries, dealing with their management, portfolio composition, liquidity reserves, accounting practices, collection methods and other components of successful financial management will be carried out. This preparation is a precondition for savings campaigns, which will imply a revision of the institutions's interest rate policies and the provision of other incentives to savers and to the institutions's employees. As may be suggested by project implementation results, other units of these institutions or other financial intermediaries may eventually be incorporated into the voluntary savings mobilization effort.

BAGRICOLA will offer savings and time deposit accounts for the first time, while the credit unions will significantly modify their resource mobilization strategies. BAGRICOLA branches tentatively selected are San José de Ocoa, Monte Plata, San José de las Matas and Río San Juan. Credit unions tentatively selected are Amor y Paz (Cotuí), Esfuerzo de los Pobres (Villa Riva), San José Inc. (San José de las Matas) and Sabaneta Novillo (Santiago Rodriguez). Further analysis by the long-term technical assistance person and the project coordinator will make final this selection.

2. Establishment of Research Capability

The central coordinating agency of the project, the Central Bank, will be responsible for establishing a permanent Dominican research capability on rural financial market questions. A series of coordinated, in-depth studies of formal and informal financial markets, transaction costs, savings behavior and financial policies will be undertaken, with technical assistance from Ohio State University. Knowledge of the operation of financial markets in the Dominican Republic is generally scanty, dated, or not focused on policy-relevant issues. Informal markets are very significant, but little is known about their operations. Nothing is known about the level of transaction (saver-lender-borrower non-interest) costs. The determinants of savings behavior in the Dominican context have not been sufficiently explored. Local institutions with some research experience will be assisted by Ohio State, which has developed a worldwide reputation in this area, to design, undertake, and interpret the results of various field surveys and policy-related analysis. The actual topics and methodologies to be applied will be discussed, prior to the initation of activities, in a workshop to take place soon after project approval.

While extensive research on savings mobilization has been carried out in other countries of Latin America, particularly in Peru and Honduras, this research exposes socio-cultural and economic factors which are specific to countries and regions. Based upon its experiences and research elsewhere, and in consultation with Dominican institutions and individuals familiar with rural financial markets, the Ohio State University project team has tentatively developed a research program for the project. The final selection of research projects will result from the workshop mentioned ano implementation will involve close collaboration between the following Dominican institutions and OSU.

a) Central Bank

Both the Department of Economic Studies and the Finance Department will participate in research of financial markets and policies. Within the pilot project area, one possible activity is to study a sample group of depositors and of non-depositors to ascertain their levels of savings and institutional and service preferences. Special studies of formal and informal financial institutions will also be conducted, as well as policy studies of prices and financial markets.

b) Superior Agricultural Institute/Center for Administration of Rural Development

ISA and CADR will carry out field surveys to establish costs of borrowing, size of deposits, and institutional relationships with each type of financial institution. Based on this information and research by others, ISA/CADR will prepare a series of approximately six case studies on the following topics: loan delinquency and recovery, liquidity management, savings mobilization in banks and credit unions, merchants and moneylenders, rotating credit societies (sanes), financial costs in relation to agricultural production costs and opportunity costs of money invested in agriculture. These case studies will form the basis of policy seminars later in the project.

c) Catholic University

UCMM will play a major role in the research portion of the pilot project. An inventory of the number and type of financial institutions, both formal and informal, will be made in four of the pilot project communities. Rural non-farm savers and borrowers will be surveyed and analyzed according to access and use of capital, and their attitudes toward and relationships with formal and non-formal financial institutions. UCMM will study active community organizations which can serve as mechanisms to promote participation in formal rural financial markets. Finally, a detailed study of transaction costs, client-institution relationships, and other aspects of rural financial intermediaries will be completed. Members of the economic and social work faculty will collaborate with students of UCMM and ISA in these investigations and surveys.

d) Agricultural Secretariat

The Agricultural Secretariat has completed two nation-wide surveys at the farm level on agricultural credit. These valuable sources of information have not yet been throughly analyzed by the staffs of the statistics and economics departments of SEA. The project will pay for the completion of the analysis and publication of the findings.

e) Agricultural Bank

The Agricultural Bank will complete several studies related to the results of the rural savings mobilization campaign and transaction costs. Also, an analysis of a sample of its clients and their loans will be made. This study should yield valuable information on repayment problems and on criteria for the selection of credit-worthy clients.

f) The Ohio State University

As part of its four-year cooperative agreement with AID/Washington, OSU will provide technical assistance to the other researchers on the project. This will include faculty time spent in the Dominican Republic, support for OSU graduate students, organization of workshops, library strengthening for the Central Bank and sharing information gained in similar projects in other countries. An initial workshop will determine the nature of the collaboration with each institution. Under the cooperative agreement OSU will also undertake comparative research to contrast the Dominican Republic with other countries.

3. Information Dissemination

The last group of activities under this pilot project will include several types of information exchange and opportunities for government and private sector decision makers to analyze and, if need be, change policies relating to rural financial markets. Each research institution will have an opportunity, either through seminars, workshops or publications, to present its findings, interpret them and suggest policy implications.

The project coordinatior with the assistance of OSU and the Advisory Council will prepare an assessment report of the pilot project results, including recommendations upon the research findings and experience gained from the rural savings mobilization campaign. This should be an action-oriented report with specific suggestions for policy makers and a design for a national program if the pilot project proves promising.

IV. SUMMARIES OF ANALYSES

A. Institutional/Financial Analysis

Economic development is related to a country's rate of domestic savings, which make possible human and physical capital accumulation, and to the efficiency with which the savings flows are allocated among competing investment projects. Recent views of development have emphasized the role of financial markets in increasing savings flows and in improving their allocation. Saver costs include, in addition to the sacrifice of present consumption for the sake of more in the future, the storage, handling, and other costs associated with specific forms of savings (inventories of inputs or of final goods, livestock, real estate, jewelry and other inflation hedges, etc.) Financial savings are attractive if they reward savers for their sacrifice and the transaction costs associated with them are low. Liquidity, divisibility, and low risks are usually associated with financial instruments that make them attractive means for holding savings. Inflation and interest rate restrictions reduce the attractiveness of financial assets. Investors, on the other hand, may find it difficult to obtain additional resources directly from the original savers. Obviously, there is no reason to believe that those with a capacity to save are always those with the best investment opportunities. Lack of information, the small size of transactions, and other factors make it difficult for savers and investors to meet. Financial intermediation, therefore, becomes the mechanism for efficiently channelling funds from savers to investors.

Financial intermediation improves the saving-investment process to the extent that it reduces total transaction costs. This reduction is a consequence of economies of scale (which are substantial in financial activities) , professional portfolio management, risk diversification, information systems, term transformations and other advantages of intermediaries over a direct relationship between savers and investors. As a consequence of this reduction in transaction costs, it becomes possible to increase the net rewards to savers (deposit rates minus saver transaction costs), to lower the total costs of funds to investors (interest payments plus borrowing costs) and to generate normal profits for the intermediary, after the lending costs and risks have been fully covered. Therefore, the success of projects associated with financial activities is directly related to its impact on the costs of matching savings with investments. In turn, a reduction of these costs is expected to increase both the level of savings and investment and to promote economic growth.

At present, the institutions associated with this project generate high lending and borrowing costs and, through regulation and/or internal policy, pay low real rates of return to savers. As a consequence they have been able to mobilize few resources and are not allocating them in the most socially profitable fashion. The project attempts to improve their performance in this connection. This would significantly increase the profitability of these institutions above their now poor levels of profit.

The project design attempts to encourage the participating institutions to pay competitive and sufficiently attractive interest rates on savings deposits mobilized, in order to significantly increase their access to domestic resources. The interest rates should, as a minimum, become positive in real terms. The level of nominal rates that makes real rates positive will depend, of course, on the levels of expected inflation, so that it is not possible at this time to exactly predict what they should be. Given the recent levels of inflation, a minimum figure would be 10 percent per annum. Given the rates that are being paid in the shadow market (of at least 18 percent per annum), higher rates may become necessary. In any case, participating institutions will begin the project by paying the maximum rates presently allowed. The results from the pilot project may indicate the need to revise these interest rate levels and the accompanying research may suggest the possible benefits of adopting other interest rate policies.

Moreover, the participating institutions will attempt to increase the net rewards to savers through promotional incentives such as gifts, lotteries, prizes, etc., as well as through reductions in saver transaction costs. While some of these measures will increase the cost of funds for the participating institutions; it is expected that these additional costs will be more than compensated by the increased level of operations and by the profits implicit in the more efficient portfolio management that will be promoted by the project.

1. Agricultural Bank

As of December 31, 1982, the paid-in capital of the Agricultural Bank was RD$50,000,000. Total assets amount to RD$318,038,555. This asset accumulation has been the result of government contributions, access to the Central Bank funds and to international donors. BAGRICOLA has never mobilized domestic resources through deposit services. Its extensive network of branches and satelite offices throughout the country provides an ideal vehicle for penetrating the rural savings market. The existence of such branches could make savings mobilization possible with a relatively small incremental cost outlay. Such domestic resource mobilization is urgent, given the growing liquidity problems of this bank. These liquidity problems reflect a poor credit portfolio, high delinquency and high losses due to subsidized credit operations.

Commonly used criteria of financial analysis suggest that BAGRICOLA is in poor financial health. At least 32 percent of total loans have some delinquency problem. If accounts receivable resulting from unrecoverable loans under the Agrarian Reform Program are added, the portion of the portfolio which is in trouble reaches 46.4 percent.

Moreover, even as measured at present, the bank's profitability is marginal at best. One of the major challenges of this project will be to promote changes in BAGRICOLA's financial and portfolio management that would make it a viable institution. Savings mobilization at the four branches associated with the project will have only a marginal impact of costs and on profitability, but the leverage that this effort could have, in terms of improved procedures, could be very high.

If at the outset of the project savers are paid at least the maximum allowable interest rates under the present regulations (that is, 6 percent for savings and 10 percent for time deposits), plus additional promotional incentives amounting to two to six additional percentage points, financial cost for BAGRICOLA would be 12 percent per annum. However, given a reserve requirement that will be imposed on deposits by the Monetary Board, the actual cost of funds will be higher. For example, if reserve requirements were set at 10 percent, the actual cost of the funds would become 13.33 percent per annum. The higher the reserve requirement, the higher the actual cost of the funds.

The relatively high cost of the funds makes it necessary to adjust lending rates in order to cover for lending costs and risks and generate a profit for the bank. Experience has shown that a spread in the order of five percent per annum may be necessary to cover the costs associated with clients like those of BAGRICOLA. This implies that this bank should charge at least 18 percent per annum. This may not be possible at the outset, but the project will attempt to convince the authorities about the desirability of this change. By law, BAGRICOLA is permitted to charge commissions for loan administration of two percent and it currently charges a one percent commissior for loan processing. In addition, the law would permit BAGRICOLA to charge one or two additional percentage points in commissions if required to offset increases in financial costs. These commissions may make it possible for the bank to obtain a profit. However, the project provides for the research activities to measure the bank's lending costs, in order to introduce innovations that reduce these costs. These investigations will indicate the level at which lending rates must be set for BAGRICOLA to become a profitable institution. Also, technical assistance will be provided in order to significantly reduce losses due to default. The ultimate purpose of the project activities is to show that:

a) it is feasible to pay attractive interest rates to savers and mobilize resources in the rural areas;

b) it is possible to profitably lend to rural activities at market interest rates; and

c) it is possible to improve the efficiency of financial institutions in order to increase rewards to savers and reduce borrowing to investors.

The project will identify the ways in which this can be done and will attempt to convince the authorities that the policy changes required for this to be possible are desirable. (See Annex F for full text of Agriculture Bank Institutional/Financial Analysis.)

2. Credit Unions

The financial situation of the cooperatives tentatively selected for project participation (Sabaneta Novillo, Esfuerzo de los Pobres, San José Inc., and Amor y Paz) was examined on the basis of limited unaudited data. These particular cooperatives had either low delinquency rates, or their delinquent accounts were covered by member savings or were due to specific problems (African Swine Fever or drought).

Their debt ranged from zero (in the case of San José Inc.) to 66.9 percent of capital (Amor y Paz). Except for San José Inc. savings and fixed term accounts were either non-existent or insignificant. At San José savings accounts amounted to 27 percent and fixed term deposits amounted to 18 percent of the loan portfolio. While not robust when compared to other credit cooperatives elsewhere, the tentatively selected credit unions are financially stronger than other potential candidates investigated. An important initial effort to improve their profitability and financial performance will be a precondition for the savings mobilization campaigns.

At present, given the low level of transactions, costs per transaction are very high. By the same token, the potential for increasing the volume of transactions is very high, without much increase in the existing staff. That is, economies of scale will be very important for these institutions. The new resources mobilized could increase the size of loans granted, which also reduces transaction costs per loan. At present these cooperatives seem to be operating with a 12 percent spread, which may be justified by the low level of operations. It seems reasonable that the larger volume after savings are mobilized will make it possible to operate with much smaller margins. Again, testing and research will determine the most effective levels of deposit and loan rates that make the operation profitable. Considerable technical assistance will be provided in this connection and savings mobilization campaigns will be adjusted to the findings of the technical assistance effort, in order to guarantee the success of the project. (See Annex G for full text of Institutional/Financial Analysis of Credit Unions.)

B. Economic Analysis

Savings mobilization is a major focal point for economic growth and development, for without savings and investment economic growth is impossible. This proposed pilot project is designed to mobilize financial resources and to demonstrate increased efficiency in the rural financial markets. Efficiency in the financial market is measured by the costs of matching savings with investment. Increased efficiency in the financial market can contribute substantially to social and economic welfare in several dimensions: (1) through a better utilization of the financial resource base; (2) through expanded credit at a reasonable borrowing cost (market rates of interest plus reduced transaction cost) for production activities, and (3) through an increased flow of funds from savers to borrowers.

1. Feasibility of the Project

The proposed savings mobilization plan addresses the dual objectives of increased productivity through investment by borrowers of funds and of upgrading the rural standard of living. An effective savings mobilization program will also provide benefits to savers by providing opportunities to accumulate small savings that receive a real positive rate of return.

The field work proposed within this project seeks to test the technical and economic feasibility of savings mobilization interventions to improve the effectiveness of rural financial institutions. These activities should lead to an accumulation of financial capital in rural areas as a vehicle for development. There is evidence from A.I.D. and World Bank projects that improved savings mobilization does generate significant direct and indirect economic net returns. Projects carried out by the World Bank which have included savings and/or credit components have shown an *ex ante* economic rate-of-return greater than 15 percent[1]. A.I.D. projects in Bangladesh, Peru and Honduras, also have demonstrated that savings can be successfully mobilized in the rural areas of low-income countries. All of these factors indicate the economic feasibility of the type of activities to be carried out under the proposed project.

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1 See following publications of the International Bank for Reconstruction and Development (IBRD):

IBRD, "Project Performance Audit Report, India: Pubjab and Haryana Agricultural Credit Projects (Credits 203 and 249-IN)," Report No. 2684 (Washington, D.C.: IBRD, October 5, 1979);

IBRD, "Project Performance Audit Report, India: Andhra Pradesh, Tamil Nadu, and Maharastra Agricultural Credit Project (Credits 226, 250 and 293-IN). Report No. 2688 (Washington, D.C.: IBRD, October 15, 1979);

IBRD, "Project Performance Audit Report, India Agricultural Refinance and Development Corporation First Credit Project (ARDC 1) (Credit 540-IN)," Report No. 2702 (Washington, D.C.: October 25, 1979).

2. <u>Savings and Investment in the D.R.</u>

The average rate of growth of real GDP in the Dominican economy during 1975-1980 was 4.8 pecent. With the arrival of the worldwide recession in the last two years, the average growth rate of real GDP has declined from 5.7 percent in 1980 to 3.5 percent in 1981 and to an estimated zero growth in 1982. Worsening terms of trade, mainly because of low world sugar prices, caused real national income to decline in 1982.

As can be seen in Table 1, the need for increased domestic savings in the DR is large because the investment requirements for rapid economic growth and development are greater than domestic savings. With a steadily increased gross domestic product, the D.R. will have to satisfy increased demands for consumption from the private and public sectors as well as increased investment to produce future goods and services. Gross domestic investment decreased from about 24 percent of gross domestic product (GDP) in 1978 to 21 percent of GDP in 1982. Gross national savings have decreased from about 17 percent of GDP to about 15 percent of GDP in this same period. The difference between gross national savings and gross domestic investment has been met by external savings. External savings were about six percent of GDP in 1978, increased to over ten percent of GDP in 1980 due to increased foreign inflows in response to the 1979 hurricane disaster, and then declined to about half the level. As the economy rebounds from recent stagnation, investment demand will increase and require more savings from domestic and/or external sources.

To increase the domestic savings rate above current levels, financial markets must offer attractive real rates of return on financial assests to increase the saver's desire to hold financial assests rather than inflation hedges. The GODR has authorized the creation of several new financial institutions such as savings and loan associations, and mortgage banks in the last 20 years. These specialized financial institutions are authorized to pay higher rates of interest on deposits than are commercial banks. Because of these higher interest rates, deposits in these institutions have increased much more rapidly than deposits in commercial banks (Table 2). Many of these institutions offer positive real rates of interest in contrast to the negative real rate of interest offered by commercial banks on savings deposits. For example, commercial banks may pay a maximum of five percent on savings deposits and 9.5 percent on fixed time deposits which results in a zero or negative real rate of return given an inflation rate of about nine percent in the DR in 1982. As can be seen in Table 3, the savings and loan associations, construction mortgage banks, and development finance companies are allowed to pay more on savings deposits and up to 11-12 percent on longer term bonds.

In addition to higher interest rates, these non-bank financial intermediaries have been subject to lower reserve requirements than those for commercial banks which are 50 percent on demand deposits and 30 percent on savings deposits. According to a 1947 statute, the

Agricultural Bank is subject to a ten percent reserve requirement on savings deposits; however, this may be modified after the Central Bank completes its present study of that reserve requirement.

Increased domestic savings are important not only for the entire Dominican economy, but in particular for the agricultural sector. Table 4 shows that total loans to agriculture have increased annually from 1970 to 1982; however, in recent years these increases have slowed down dramatically so that the inflation adjusted value of loans to agriculture is decreasing rather than increasing. It is also clear that the Development Finance Companies have expanded lending to agriculture at a very rapid rate because of the special considerations granted them by the Central Bank. Although the Agricultural Bank is still the most important source of agricultural credit in the country, its share of total agricultural lending has declined from over 75 percent in 1970 to just over 50 percent in 1982. In the last couple of years, the Agricultural Bank lending has increased slightly in current pesos but has declined in real terms. Since none of the other financial institutions have increased lending enough to offset the Agricultural Bank decline in real terms; the total portfolio to agriculture has stagnated in recent years.

The interest rate ceilings have contributed to the movement of substantial amounts of capital to the informal financial market (money-lenders, small loan companies, etc.) which reportedly has a loan portfolio as large as that of the formal financial system. In this informal market, interest rates of about 36 percent annually are charged on loans and interest rates of about 24 percent per annum are paid on deposits.

Since credit unions in the Dominican Republic are not subject to the interest rate ceilings of the Central Bank, the credit unions selected for the savings mobilization project are free to pay market rates of interest on savings and to charge market rates of interest on loans. Agricultural Bank, the second financial institution selected for this project, is subject to an interest rate ceiling of six percent on savings deposits and ten percent on fixed time deposits. Assuming a ten percent reserve requirement and an estimated spread of two percent for overhead on the savings activity, the marginal cost of funds mobilized would be 15 percent. By law Agricultural Bank may charge up to 12 percent and may charge three to four points in commissions. Transactions cost studies and financial analyses carried out under the project's auspices will determine the annual profitability allowed by these margins and may suggest to BAGRICOLA the need to substantially revise its polices.

Interest rates on deposits are not the only consideration of depositors on choice of financial institution. The experience of Ohio State University in Peru and Honduras has shown that location, convenient hours, quality service and confidence in the institutions are also important to the depositor. (See Project 517-0179 files for full text of Economic Analysis.)

Table 1: Production, Consumption, Savings and Investment in the Dominican Republic 1978-1982

Year	Gross Domestic Product at Current Prices	Consumption	Gross National Savings	Foreign Savings	Gross Domestic Investment
	RD$ Million	------------ Percent of GDP -----------			
1978	4,728.4	78.7	17.3	6.6	23.9
1979	5,525.4	77.3	19.3	5.9	25.2
1980	6,649.0	86.2	15.6	10.1	25.7
1981[a/]	7,549.6	84.0	18.3	5.4	23.7
1982[b/]	8,013.7	84.0	15.4	5.4	20.8

Source: International Monetary Fund and Banco Centrál de la República Dominicana.

a/ Preliminary

b/ Estimate

Table 2: Funds Mobilized by Different Financial Intermediaries, 1973-1982

Millions of RD$

Year	Commercial Banks			Savings & Loan	Finance	Mortgage
	Savings	Time	Total	Associations	Corporations	Banks
1973	119.5	225.3	344.8	97.0	-	-
1974	159.7	202.6	361.3	131.1	0.5	3.0
1975	176.8	190.7	467.5	166.0	1.5	8.7
1976	181.4	303.2	484.6	205.6	1.8	14.8
1977	195.6	349.8	545.4	257.9	3.4	26.3
1978	211.6	321.5	533.1	311.0	8.2	50.8
1979	231.2	325.1	556.3	369.1	11.3	86.1
1980	242.3	352.6	594.9	448.9	17.6	117.7
1981	254.6	422.4	687.0	514.8	22.5	178.0
1982	303.9	500.0	803.9	602.4	36.1	238.4

Source: Boletín Banco Central, División Análisis Financiero - Estudios Económicos

Table 3: Number and Type of Financial Institutions in the Dominican Republic

Institution/Instrument	Minimum Deposit	Maximum Interest Rate
Commercial Banks		
Demand deposits	-	0.0
Savings deposits	5	5.0
Indefinite time deposits	5,000	6.5
Fixed time deposits		
30 to 180 days	1,000	7.5
180 days or more	1,000	9.5
Savings and Loans		
Savings deposits	3	6.0
Fixed time deposits		
30 to 180 days	500	8.0
180 days or more	500	10.0
Mortgage bonds of 10 years or more	100	11.5
Mortgage participation contracts (5 years or more)	100	11.5
Construction Mortgage Banks		
Fixed time deposits		
30 to 180 days	1,000	7.5
180 days or more	1,000	9.5
Mortgage bonds of 10 years or more	100	11.0
Development Finance Companies		
Administration Funds	5,000	8.5
Finance Bonds (commercial paper)		
up to 360 days	500	9.0
1 to 3 years	500	11.0
Bonds of 5 or more years	100	12.0
Agriculture Bank		
Savings deposits	-	6.0
Fixed time deposits (180 days minimum)	-	10.0
Securities (Títulos, Valores)	-	12.0

Institution/Instrument	Minimum Deposit	Maximum Interest Rate
Industrial Promotion Corporation		
Securities (Títulos, Valores)	-	12.0
Worker Savings Bank		
Savings deposits	-	6.0
Workers Bank		
Demand deposits	-	0.0
Savings deposits	5	6.0
Indefinite deposits	5,000	6.5
Fixed time deposits		
30 to 180 days	500	8.0
180 or more days	500	10.0
Administrative funds	5,000	8.5
Bonds of 5 years or more	100	11.5
Mortgage bonds of 10 years or more	100	11.5
Institute of Development and Cooperative Credit		
Securities (Títulos, Valores)		12.0

Source: Banco Central de la República Dominicana

Table 4: Outstanding Loans to the Dominican Republic Agricultural Sector by Formal Lenders, 1970-1982
(End of Year Balances in Millions of Current Pesos)

Year	Total	Agricultural Banks	Commercial Banks	Dominican Development Foundation	IDECOOP	Development Finance Companies
1970	78.4	61.2	15.5	0.4	0.6	0.7
1971	82.2	62.7	16.2	0.5	0.8	2.0
1972	85.1	58.7	21.1	0.5	0.9	3.9
1973	104.5	64.0	34.5	0.8	1.5	3.7
1974	128.9	76.6	46.9	1.5	0.8	3.1
1975	166.4	84.7	61.9	1.7	0.8	17.3
1976	174.5	90.4	61.9	2.4	1.7	18.1
1977	209.3	106.9	73.1	2.3	1.6	26.3
1978	239.2	136.3	67.4	2.9	2.3	30.3
1979	296.2	175.7	77.1	1.6	2.3	39.5
1980	362.4	225.3	89.0	2.2	2.3	43.6
1981	393.5	247.5	91.1	1.6	2.3	51.0
1982	425.6	249.6	102.3	1.2	2.3	70.2

Source: Banco Central, Boletín Mensual and Depto. Financiero

C. Social Soundness Analysis

Several aspects of the circulation of savings and credit in the Dominican Republic are relevant to this project. (1) More savings are mobilized in urban centers such as Santo Domingo and Santiago de los Caballeros than in rural centers and the countryside. (2) Access to credit is also greatest in the urban centers. (3) There is a net transfer of capital from rural to urban areas. (4) The poor have less access to credit and savings services of formal financial institutions. The major implication flowing from these facts is that current financial markets penalize rural areas, especially rural poor, because of limited control by rural populations over their savings and because of limited organizational capacity to service their needs. The savings mobilization project is designed to begin to remedy this problem.

1. Beneficiaries

The most immediate beneficiaries of the project will be local savers and borrowers in rural areas. Savers will benefit from increased access to a greater number of alternative institutions in which to deposit their savings. The Agricultural Bank has not previously accepted savings deposits and many cooperatives give priority to marketing and production activities to the exclusion of savings. Borrowers, including farmers, will benefit by access to a greater volume of credit for production and marketing activities. The relatively high demand for high interest credit in the informal market by small farmers and rural poor suggests a need to expand the volume of credit available to them. The participating credit unions and the Agricultural Bank will be strengthened by increased volume of capital and decreasing their operating dependence on external sources of capital. Indirect beneficiaries are the businesses and inhabitants of local communities who enjoy the benefits of multiplier effects of increased flow of capital produced by use of the savings. They are represented by intermediate and final purchasers of increased production, individuals who take jobs created by productive use of increased savings, and other members of the communities, because strengthened financial institutions enhance the development potential of the entire community.

2. Participator Profile

There is considerable variation in the socio-economic conditions of future project participants. Esfuerzo de los Pobres, Sabaneta Novillo, and Amor y Paz cooperatives mostly serve small farmers and middle income men and women. San José primarily serves urban residents, including around 400 who are temporarily employed in the farm sector, but its clientele includes many small farmers. Neither the cooperatives nor the bank offices are likely to serve the poorest classes such as day laborers and charcoal producers who lack collateral and exist at a subsistence level. Managers are conscious of the need to balance service orientation with viable business practices.

The biggest losers will probably be in the informal credit markets. Increased savings will make it possible for borrowers to turn less often to money lenders for capital to carry out essential production activities and to handle crisis situations such as family illness and death. Similarly sanes and other informal rotating credit and savings activities will tend to disappear. Transfer of capital from these markets to the Agricultural Bank and cooperatives will be hastened by satisfying non-credit needs of members such as game participation and social interaction.

Participating institutions are committed to the project. The Central Bank is concerned that up to half of all savings and credit transactions occur in the informal market. It wishes to learn more about this market and eventually to correct distortions which will make it possible to transfer this capital to the formal market. An indication of the Central Bank's commitment to the project is its willingness to provide a technician to coordinate the project, and to provide office space and other research inputs.

The Agricultural Bank is anxious to initiate savings mobilization activities in all of its regional offices and cooperatives have already undertaken independent savings mobilization campaigns. Rather than lack of commitment, a major problem may be one of orderly organization and phasing of project experimentation, feedback of results and program adjustment.

3. Participant Involvement

The Central Bank, the Agricultural Bank and FEDOCOOP will be involved in project development, implementation and evaluation. Opportunities for local decision making will be greater for the cooperatives than for the Agricultural Bank. Cooperative members occupy formal leadership positions. They execute savings and lending policies determined by democratic assemblies of the members. Agricultural Bank branches are more subject to policy decisions made in Santo Domingo.

If similar to those used in other Latin American countries such as Peru, savings incentives used in the savings mobilization campaigns will probably elicit popular support. Higher interest rates paid on deposits, raffles and lotteries are all likely to capture the fancy of savers. The latter build on local customs. There is greater flexibility for adjusting these incentives to motivate savers in the cooperatives. However, with the proper incentives, branch offices of the Agricultural Bank may secure more savings because of perceptions that it is a stable, national, and government financed institution. In some cases, cooperatives will have to overcome member apprehensions that derive from past cooperative failure and mismanagement.

4. Socio - Cultural Feasibility

The major obstacles to succesful completion of the project is inadequate administrative and management capacity. Savings mobilization in Peru and other Latin American countries showed that an effective campaign will mobilize considerable savings. A major problem is efficiently and effectively managing these savings. This requires a tightly defined administrative procedure and considerable management expertise. The Agricultural Bank has previously concentrated on lending activities and will need to create a procedure to handle savings deposits. The project includes considerable technical assistance to the Agricultural Bank. In addition, the Bank will be able to borrow administrative technology from the commercial banking sector. Cooperatives vary greatly in their capacity to manage savings. Management capacity should be a major criterion used to select pilot project participants. With adequate technical assistance, managers should be able to handle the increased savings adequately. However, the project must also assure that sufficient technical assistance is provided to FEDOCOOP to increase its capacity to provide adequate technical assistance to other cooperative affiliates prior to their initiation of sizeable savings mobilization campaigns.

It will be important to monitor project impact on productive activities of agricultural borrowers and savers. Increased interest rates on savings results in increased interest rates on loans. The latter may raise costs of production. It should be determined whether increased availability of capital at the new rates from project lending institutions generates significant decreases in use of capital provided by money lenders and other high interest rate sources.

Considerable variation exists in the orientation of cooperatives and bank managers towards their clientele. There is a need to balance the desire to serve clientele with the need to maintain financially viable institutions. This is especially true for the cooperatives which experience more direct membership participation in policy and decision making. Interviews with managers of pilot project institutions suggest that they are aware of the need for balance and are committed to protecting member interest by maintaining financially viable institutions.

5. Project Impact

Inadequate management and administrative capacity is the Achilles' heel of the project. It is likely that succesful savings mobilization campaigns by pilot project participant institutions will generate similar activity in other institutions, especially because the Agricultural Bank and FEDOCOOP coordinate other branch affiliates and other savings and credit cooperatives, respectively, and because of the current dearth of capital from other national sources on which they have previously depended. The major danger is that savings mobilization campaigns will spread too rapidly to other institutions. It will be important for the Agricultural Bank and FEDOCOOP to control the process by requiring that adequate management and administrative procedures be in place prior to permitting campaigns to be carried out by other member institutions. Adequate technical assistance by these national entities to their affiliates will be essential.

Techniques used to mobilize savings are compatible with existing customs and traditions. Currently, rural inhabitants participate in raffles, lotteries and other games sponsored by the government, local institutions and informal groups such as sanes. The savings mobilization campaign will provide participants with opportunities to satisfy these needs to a greater extent in the formal financial market.

Benefits will extend beyond the life of the project. Monitoring and evaluation research will improve savings mobilization techniques and efficient use of capital in future programs. Capital generated by campaigns will be rotated to other production activities, thus guaranteeing significant development multiplier effects. The Agricultural Bank and FEDOCOOP will implement campaigns in other affiliates to increase capital available for production activities, and the Central Bank will adjust interest rates and other financial instruments based on research findings.

6. Ongoing Social Impact Assessment

Maximization of project impact on the public serviced by the participating cooperatives and Agricultural Bank branches and on national policy will require continuous monitoring of changes in the formal and informal credit markets affected by the project. On-going research has been programmed with the participation of the Economic Studies Division and Finance Departments of the Central Bank, the Catholic University Madre y Maestra (UCMM) through its Economics and Social Work programs, the Superior Agricultural Institute (ISA) in Santiago, and the Agricultural Secretariat (SEA).

Among the topics slated for study are initial mapping and later monitoring of changes in formal and informal credit markets in study communities, patterns of participation of rural populations in financial markets, and studies of local community organizations that can be used as liaison between lenders and borrowers and financial intermediaries.

Results of this research will be incorporated into credit policy and programming in several ways. ISA will prepare about six case studies based on the research. They will be used in seminars for Agricultural Bank officials, cooperative employees and other credit personnel. A series of workshops are scheduled to discuss and disseminate research by the project coordinator who will be responsible for overall coordination of the research and who will report and discuss research findings with policy making personnel. (See Project 517-0179 files for full text.)

D. Administrative Analysis

An analysis of the administrative aspects of the Rural Savings Mobilization Project necessitated considering each organization in much broader terms. Consideration of the status of autonomy, relationships between institutions, legal ramifications under existing monetary policy, performance history, prior use of resources, level of interest and management capability were among the factors considered in the process for selecting institutions compatible with the intent and aims of the program.

Because this project contains both demonstration and research/study components, consideration was also directed toward assuring the maintenance of research/study integrity.

The economic status of the locale, extent or lack of competition, level of assessed management capability, and relationship to the availability of technical and advisory resources were the major factors considered in the selection of specific sites for carrying out one or both (demonstration and/or research) aspects of the project.

1. The Selection Process

A number of existing institutions which might eventually participate in a savings mobilization program were identified. However, at this time they are not included because of such factors as location, clientele, legal restrictions, etc. Nevertheless, some of these institutions may be included in the future, if the implementation and research efforts show this to be desirable. These institutions included:

a. Commercial Banks: Because of interest rate controls, high reserve requirements and cost of working with small depositors in rural areas, they have had little involvement with the rural economy.

b. Development Financieras: Because of urban locations and orientation toward reliance on cheap external resources (provided primarily through FIDE), they were not considered for participation at present. Since these financieras are important in financing large scale agricultural projects, some of them may be incorporated at a later stage.

c. Dominican Development Foundation: May be a candidate for future consideration if legal constraints are removed. At present, FDD is viewed primarily as a social service oriented institution.

d. Savings and Loan Associations: They were not included because of orientation to housing, although studies of rural financial markets might reveal other operations by these institutions that might fit the project.

e. Small Loan Finance Companies: Possibly could be included if initial studies of informal rural financial markets show the extent of the rural operations and potential for savings mobilization and rural credit.

f. Exchange Houses: Possibly could be included after initial studies of informal rural financial markets show they have potential for rural savings and credit operations.

The institutions selected have some potential to successfully participate in and facilitate the demonstration, testing, research/study and dissemination components of the proposed rural savings mobilization program. The Central Bank, because of its established position and regulatory role, will be the lead counterpart institution for this project and will work with five other agencies selected for their specific capabilities, responsibilities or interest in the project. These other institutions include the Agricultural Bank and the private sector Dominican Federation of Savings and Credit Cooperatives. These institutions would have the primary responsibility for the demonstration/testing phase of the savings mobilization activity. The Catholic University Madre y Maestra, the Superior Agricultural Institute and the Agricultural Secretariat were selected becuase of their ability to undertake primary responsibility for the field research activities. All these institutions are accustomed to receiving technical assistance and training and BAGRICOLA and FEDOCOOP already have credit and training programs for the rural population. Overall assistance both in the implementation of the savings mobilization effort and research activities will be provided by Ohio State University.

2. The Apex Institution - A Focal Point for Coordination: Central Bank

The Central Bank, created in 1947 as an autonomous institution, has the objective of promoting and maintaining the most favorable monetary exchange rate and credit conditions for development and stability of the national economy and regulation of the monetary and banking system of the country. The Governor holds the highest position in the Central Bank and presides over the meetings of the Monetary Board (Junta Monetaria). The Central Bank is a highly respected institution with a well trained professional staff. Of the twelve Bank departments, the Department of Finance and the Department of Economic Studies have responsibility for implementing or regulating policies that are directly related to the success of the project. Both departments have actively contributed to the data base used in developing the overall implementation plan and project paper and desire further involvement.

The rationale for working with the Central Bank as one of the primary implementing agencies lies with the prominent position of the Bank as an intermediary between government institutions and the private financial intermediaries. One of the expected outcomes of the project are reports and studies that could suggest the beneficial effects to the Dominican Government of the liberalization of interest rates and revision of other financial policies. The Central Bank as a primary link to the Monetary Board is then the appropriate institution in the dissemination of policy related information resulting from the project.

3. Demonstration Testing Rural Savings Mobilization Techniques

The rationale for working with both FEDOCOOP and BAGRICOLA stems from the need to strengthen financial institutions within the Dominican Republic capable of delivering services to the rural poor.

FEDOCOOP views rural credit unions as potential major vehicles for stimulating rural economic development. BAGRICOLA has the mandate of providing credit facilities to promote the growth and diversification of agricultural production in order to improve the living conditions in the rural areas and thus contributing to economic development in the country. The role of both institutions should be strengthened so as to increase their long-term capabilities to address the financial needs of the rural poor. This should be particularly true in areas where no other formal financial institutions are present. However, this should not be carried to such extremes that the value or effect of competition cannot be adequately studied.

(1) FEDOCOOP

Among the strongest of the cooperative institutions is the Dominican Federation of Savings and Credit Cooperatives (FEDOCOOP), which has been in existence since 1949 (with legal official status since 1953). In 1976 FEDOCOOP had 110 affiliates with a loan portfolio of RD$361,000, which grew rapidly to RD$3.85 million in 1981. A substantial portion of the Federation loan portfolio has been directed to agricultural production and related activities, and it has been effective in providing credit services to small farmers, in particular those who are not served by other formal financial institutions. In recent years, both individual credit unions and the Federation have been experiencing difficulties in loan recovery. There is an additional problem related to inadequate financial planning and management capabilities within both the Federation and its affiliates. Addressing this problem in the pilot areas is considered an essential part of the implementation program.

FEDOCOOP is reorganizing and seeking to improve its ability to attract more qualified staff through a general reduction of services and staff, and higher salaries for more qualified individuals. A U.S. citizen with a master's degree in finance is now finance manager. He previously worked four years for FEDOCOOP as a Peace Corp Volunteer. FEDOCOOP is heavily dependent upon the Peace Corps for provision of consultants and accounting technicians to member cooperatives.

The selected credit unions all have relatively strong managers, they were aware of the need to pay and charge real rates of interest. Accounting capability requires improvement since monthly balances and income statements will be required. This will place considerable strain on the accounting capabilities of all four cooperatives.

The ability to collect loans in most of the cooperatives has not been demonstrated, since even low delinquency rates are the result of conservative lending practices. Members could borrow only 75 percent to 100 percent of their own shares, or shares of other members who have agreed to secure the loan. These conservative policies are due to the poor rate of loan collection either in their own or other cooperatives.

A major part of the technical assistance effort will be directed towards improving methods of delinquency control, collection analysis of delinquent and non-delinquent loans and lending procedures. The importance of developing management and administrative skills at the local credit union level cannot be overstated, and must be an identified component of this project.

(2) BAGRICOLA

The Agricultural Bank was created in June of 1945 and presently has 31 branches and 53 satellites offices. The bank portfolio grew from RD$48 million in 1964 to RD$250 in 1982, while formalized loans went from RD$24 million to RD$134 million in the same period. During the years of 1979-82 approved loans averaged RD$159 million, of which RD$127 million was disbursed and RD$88 million (70%) recuperated. The annual expenses in the same period averaged RD$15 million and the collected interest on loans was RD$13.5 million. The bank, operating with subsidized interest rates and performing a combination banking/social welfare role, will not make profitable operations even under the best of circumstances.

Recognizing the seriousness of its delinquent portfolio the current BAGRICOLA administration initiated an immediate action to collect on past due debts and improve its liquidity position. A savings mobilization program in a national scale, the adoption of commercial banking criteria and a review of its'interest rate policy are complementary actions included in BAGRICOLA's immediate future plans. Inclusion of Agricultural Bank participation in the pilot demonstration phase of the project will assure that large resource expenditures proposed in the future will be more effectively used.

4. Institutional Capabilities of Implementing the Research/Study Phase

a. Catholic University

The Universidad Católica Madre y Maestra (UCMM) is widely recognized as a high quality educational institution in the Dominican Republic. Founded in 1962 in Santiago de los Caballeros, the Dominican Republic's second city, the university has grown steadily over the two decades of its existence. Today it offers degree programs in eighteen fields and technical level programs in twelve others. UCMM also partly staffs the management program in agriculture at the Superior Agricultural Institute (ISA). The student population now numbers around 7,000 and among its full-time faculty, numbering over 150, seven percent hold doctoral degrees and 61 percent master's degrees. The university has been fortunate in the dynamic quality of its leadership, which enables it to attract and hold good faculty and to attract many of the ablest students in the Dominican Republic. The UCMM offers an undergraduate program in economics and business administration at the Santiago campus and a master's degree program in agricultural economics at the Santo Domingo campus. UCMM is ideally suited to carry out field surveys in savings mobilization project areas and to analyze and prepare reports on the field surveys. The library and computer facilities are adequate for these studies.

b. Superior Agricultural Institute

The Superior Agricultural Institute (ISA) was founded in 1962 by the Development Association, Inc., with funding from AID, the GODR, and private sources. The Association is made up of prominent businessmen, primarily from the Cibao, who have a keen interest in the development of the Dominican Republic. At the time of its founding, there were 12 agricultural specialists in the country with university degrees, and there were no agricultural schools at the high school level offering degree programs. ISA was founded with the objective of overcoming these scarcities. Beginning in 1962, it provided a 3-year high school level program in agriculture, and in 1968, the 2-year university program in agriculture began. Now there are nine areas of concentration at the university level as follows:

- Agricultural Economics
- Irrigation Systems
- Horticulture
- Agrarian Reform Administration
- Forestry
- Agricultural Mechanization
- Agricultural Education
- Food Technology
- Agrobusiness Administration

Currently, there are some 260 university students and 110 high school students enrolled, and by 1985 ISA expects these numbers to increase to 500 and 200 respectively, with faculty of 45 professors.

ISA currently has an AID Project to establish a Center for Administration of Rural Development (CADR) for rural development management training based on the case study method. ISA's agricultural economics staff and CADR, working jointly with UCMM will focus their efforts on the field research studies and the preparation of case studies on the behavior of informal financial markets, loan delinquency and recovery, savings mobilization, and liquidity management. This will be a major factor in the successful implementation of the research portion of the project. It would also enable the agricultural faculty to assert a more positive role in the formulation of policies critical to the agricultural sector.

c. Agricultural Secretariat

The Agricultural Secretariat (SEA) has been involved in substantial field surveys in the past. This existing data and the further analysis of it will provide an essential data baseline for evaluating progress in the demonstration areas when coupled with the research/studies planned within the framework of the project.

d. Economic Studies and Finance Departments, Central Bank

The Central Bank's Economic Studies Department plays a key role in the research segment of the project. The division has in-house capabilities for carrying out research, and is responsible for the technical review process of all studies that are to be presented to the Monetary Board for consideration. The Finance Department also has data management and research capability that will be used by the project through the Project Coordinator's Office.

e. Ohio State University

The leading role of Ohio State University in the area of rural financial markets is recognized worldwide. Under the USAID/OSU cooperative agreement on Rural Savings Mobilization, as well as this project, and important portion of the Rural Finance staff time will be devoted to the savings campaigns and research activities. These will be undertaken through close interaction between Ohio State and the other participating agencies.

(See Project 517-0179 files for full text of Administrative Analysis.)

V. PROJECT IMPLEMENTATION PLAN

The project implementation strategy is to work with public and private sector entities 1/ to address the constraints in the program for mobilization of savings in rural areas. The project will focus on inducing increased rural participation/investment in formal rural financial institutions.

The overall strategy will be carried out through three types of activities:

A. Project Coordination and Management
B. Demonstration/Testing
C. Research Studies and Evaluation

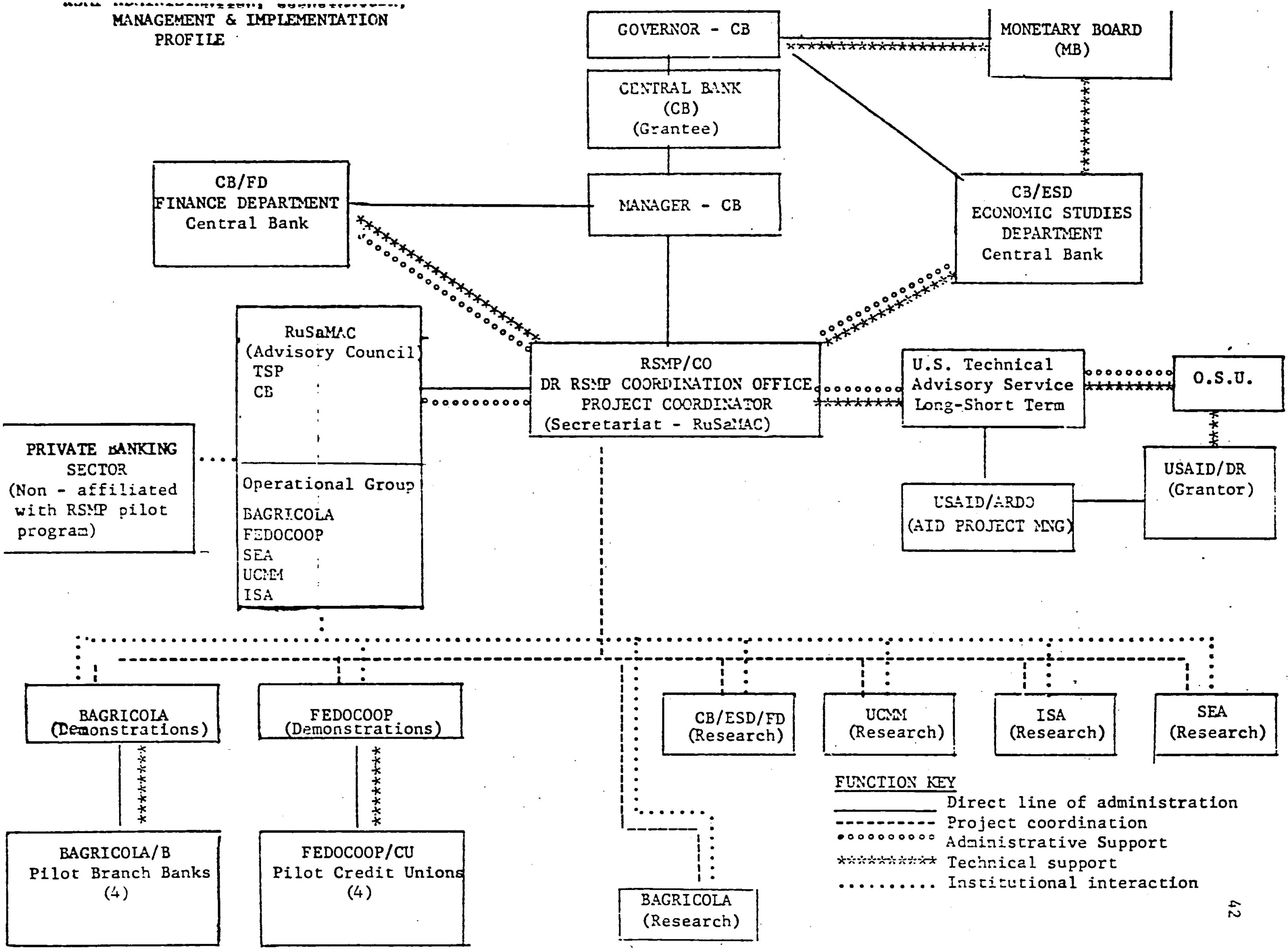
A. Project Coordination and Management

The Central Bank will be the Grantee and the main Dominican counterpart institution for this project. Its role will be in part to coordinate, monitor and evaluate the savings mobilization activities. In addition, it will carry out studies of rural financial markets, both formal and informal, and it will coordinate the research activities carried out by the other institutions. It will also hold workshops and seminars to disseminate the results of both the savings mobilization activites and the rural financial markets studies to financial institutions, as well as to GODR institutions responsible for financial market policies. In addition, a final report will synthesize and articulate the results of various project elements as an overall assessment of the savings mobilization project. This report will present a strategy for expanding the program nation-wide. Thus, the studies to be carried out will focus on issues that are important for the effective implementation of savings mobilization activities and on issues that are significant for improvements in government policies.

A project coordinator's office will be established in the Central Bank and will serve as the unit responsible for the disbursement of the monetary (local currency) and technical resources provided under the bilateral project agreement. The day-to-day administration and management to support the implementation plan of the various participatory agencies will be under the direct supervision of a Dominican Project Coordinator. This office (established for the life of the project) will be a unit within the Central Bank and will function under the general auspices of the Central Bank Manager. Support and technical guidance will be provided through a direct line association with the Department of Finance and Department of Economic Studies.

1/ See following Administration and Management Profile for project structure and institutional relationships.

MANAGEMENT & IMPLEMENTATION PROFILE



Integration of policy making institutions will be accomplished through the formation of a Rural Savings Mobilization Project Advisory Council (RuSaMAC). This council, made up of representatives of the Central Bank and Technical Secretariat of the Presidency, will provide guidance to the project coordinator in carrying out the aims of the project.

The main outputs of the RuSaMAC will be:

1. Timely and direct access by Dominican policy-makers to information relative to monetary policy, and

2. Wider dissemination of information to public and private sector banking community.

Participating public and private sector institutions (Agricultural Bank, FEDOCOOP, SEA, UCMM, and ISA) will form an operational group that will work in conjunction with the coordination unit for the project. The primary responsibilities of the institutional representatives will be to assure a well integrated management of the project, coordinated use of both internal and external resources, and a wide dissemination of the results of the project accomplishments and research findings. The project will include sufficient funds to cover travel expenses, lodging and incidentals for the institutional representatives to facilitate their participation and support in the Advisory Council and the operational group.

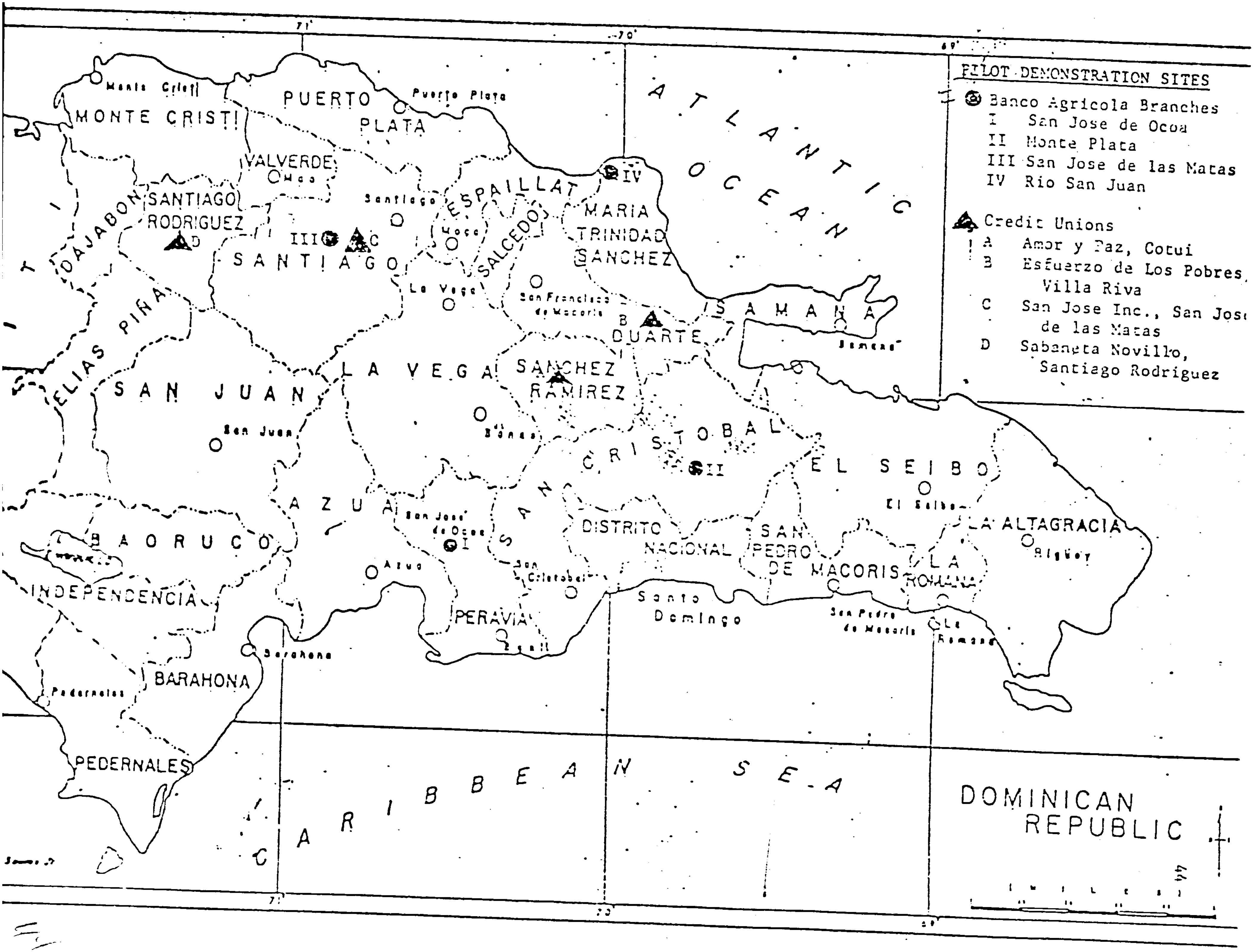
The project will also provide the local currency costs for coordinator and secretarial salaries. Foreign exchange resources will provide for a long-term U.S. Rural Saving Mobilization and Management Specialist and additional financial markets expertise. Two vehicles and limited commodities will be provided to the Central Bank for use by the Coordinator's Office to facilitate its management and advisory function in the field.

B. <u>Demonstration/Testing, Administration and Management</u>

The project will begin with the definitive selection and preparation of possibly four credit unions and four Agricultural Bank Branches 1/ to begin savings mobilization activities. Studies of rural financial markets, especially informal markets, will be started with the intention of improving the implementation of the savings mobilization activities and toward adjustments in government policies, especially within the Central Bank.

Further analysis, once the project is initiated, may lead to the exclusion or substitution of some of the tentatively selected credit unions and Agricultural Bank branches.

1/ See attached map for tentatively selected pilot demonstration sites.


PILOT DEMONSTRATION SITES
Banco Agricola Branches
I San Jose de Ocoa
II Monte Plata
III San Jose de las Matas
IV Rio San Juan
Credit Unions
A Amor y Paz, Cotui
B Esfuerzo de Los Pobres, Villa Riva
C San Jose Inc., San Jose de las Matas
D Sabaneta Novillo, Santiago Rodriguez
ATLANTIC OCEAN
CARIBBEAN SEA
DOMINICAN REPUBLIC
MONTE CRISTI
PUERTO PLATA
VALVERDE
SANTIAGO RODRIGUEZ
DAJABON
SANTIAGO
ESPAILLAT
SALCEDO
MARIA TRINIDAD SANCHEZ
SAMANA
DUARTE
LA VEGA
SANCHEZ RAMIREZ
SAN JUAN
ELIAS PIÑA
SAN CRISTOBAL
EL SEIBO
AZUA
BAORUCO
INDEPENDENCIA
DISTRITO NACIONAL
SAN PEDRO DE MACORIS
LA ALTAGRACIA
LA ROMANA
PERAVIA
BARAHONA
PEDERNALES
Monte Cristi
Puerto Plata
Santiago
Moca
La Vega
San Francisco de Macoris
San Juan
San Jose de Ocoa
Azua
San Cristobal
Santo Domingo
San Pedro de Macoris
El Seibo
Barahona
Pedernales
71°
70°
69°

1. BAGRICOLA

The Agricultural Bank has indicated strong interest in providing deposit services for clients, which it currently does not have. The project will provide technical assistance to develop such services in at least four branches. The technical assistance will focus on the importance of paying interest rates on deposits that are positive in real terms and competitive with other financial institutions, and on providing rapid and convenient service for depositors with a minimum of paperwork and other formalities. The technical assistance will also deal with liquidity management to meet possible depositor withdrawls and on-lending the deposits captured at rates of interest that are adequate to cover interest and other costs of mobilizing these deposits. Of the four Agricultural Bank branches tentatively selected, three (Monte Plata, Río San Juan, and San José de Las Matas) are located where there is currently no other formal financial institution. San José de Ocoa has competition from a commercial bank and a savings and loan institution. The selection provides deposit services in three rural areas where none currently exist, though BAGRICOLA will need to learn to deal with competition from other financial institutions. Promotional campaigns will then be tried based on appropriate publicity, raffles and other prizes for depositors, and incentives for employees to encourage more aggressive savings mobilization. Workshops will also be held so employees at the different branches can exchange information about problems encountered and accomplishments, so that savings mobilization activities can eventually be extended to other branches.

In addition to technical assistance, the project will provide some support for office equipment to handle accounting for deposits, and partial financing of the initial promotional campaigns.

2. FEDOCOOP - Credit Unions

It is anticipated that the preparation of the selected credit unions to implement savings mobilization activities will be a more lengthy process, because these institutions are less developed and have fewer financial and human resources. Three credit unions have been tentatively selected to participate (Sabaneta Novillo, Esfuerzo de Los Pobres, San José Inc.) that are affiliated with FEDOCOOP and one (Amor y Paz) is not affiliated with FEDOCOOP. The selection criteria were credit unions in rural areas where a majority of the members are engaged in farming, credit unions that have reasonably low loan delinquency, and those not overly committed to activities other than savings and credit, such as marketing. The Peace Corps in the Dominican Republic has agreed to collaborate with the project by providing volunteers to work on savings mobilization with selected cooperatives. The volunteers will take on the additional function of training credit union employees in administration and management. In addition, one or two of the new volunteers scheduled to arrive within the next four months could be specialists in savings mobilization and will work with additional credit unions. A Dominican administration and management specialist will assist FEDOCOOP and be paid through project local currency resources. This specialist, the long-term U.S. advisor, and short-term consultants will address the major problem area - the lack of administrative and management skills within the credit unions and FEDOCOOP.

The cooperatives will be introduced to the types of campaigns used elsewhere. Ideas and suggestions from the cooperatives will be utilized to assure that the campaigns have considered local conditions to gain the full support of the cooperatives.

Subjective feelings about when was the best time to run a campaign in Peru were not generally supported by the actual data on when people added to or withdrew from their savings. However, within limits it appears advisable to allow staff to choose the most effective times to hold campaigns. At a later time the project can seek to demonstrate that campaigns can be used when members have a peak demand for funds as a means of obtaining funds and reducing demand for withdrawls.

In general, savings campaigns will contain three elements:

1. Immediate small premiums to encourage confidence.

2. Raffles of larger prizes with tickets for each unit of savings RD$1 or RD$5.

3. Direct premiums for large fixed deposits.

A back-to-school campaign, for example, would offer small packets of school supplies to everyone who became a member of the cooperative and made the minimal savings deposit. These costs can run to 1.5 percent of the deposit.

For every five pesos deposited the depositor would receive a raffle ticket for bicycles and other prizes. These costs can be controlled, such as one bike for each $20,000 mobilized. Members who wished to assure that they obtained a bicycle could do so by making fixed deposits. If the wholesale cost of a bicycle was RD$80 a member could receive one immediately for a deposit of $1,000 for two years. This represents about four percent cost.

Publicity should use all media available including flyers, posters, radio, and even television.

Incentives to employees are important to assure that they fully support mobilizing resources as this will mean an increased work load for them. Such incentives should be significant in terms of existing salaries and be based on a percentage of all funds mobilized beyond a minimal amount. The division of the incentives must be clearly spelled out in advance to be a true incentive rather than a reward for performance.

Depending on administrative capabilities a cooperative could run up to three short campaigns per year. Each campaign should be programmed to run two months. Very successful campaigns can be extended for an additional month "by popular demand."

Should a cooperative find itself swamped by the increased funds, no further campaigns will be run until administrative capabilities are adequate. Loans and collections will be carefully monitored to assure that funds are being successfully on-lent. In cooperatives where funds are not being on-lent, savings promotion will be halted and mobilization stopped until sufficient loans can be made.

The initial phase of the credit union component of the project will thus focus on the credit unions' management and administrative capacity. The expertise provided will also assist in the development of a credit union evaluation and selection process with emphasis on adequate control of loan delinquency, potential ability to handle the liquidity management involved in mobilizing and servicing deposits, a willingness to focus on savings mobilization as a principal activity and to make the necessary policy adjustments, especially interest rates paid on deposits and charged on loans. Savings mobilization activities will begin with selected credit unions as soon as the necessary preparation has been accomplished, but evaluation and selection of additional credit unions will continue as long as technical assistance under the project or Peace Corps volunteers remain available. The spread of savings mobilization activities to additional credit unions will also be promoted by workshops and seminars to demonstrate successful experiences with savings mobilization by the credit unions already participating.

In addition to technical assistance, the project will provide financial support for FEDOCOOP to expand its own technical assistance capabilities, hold workshops, and support credit unions to undertake initial promotional activities for savings mobilization. FEDOCOOP and participant credit unions will be encouraged to make arrangements for annual audits which should be financed out of their operating funds, as a means of permanently establishing an audit capability.

C. <u>Research/Studies and Evaluation</u>

Several institutions will participate in the studies of rural financial markets (RFMs). These studies will focus on field investigations of informal financial markets in the seven rural areas where savings will be mobilized. Studies of formal financial institutions will also be carried out. The main institutions to be involved in the studies are Central Bank, ISA, UCMM, SEA and OSU. The activities of each institution are described in greater detail below. A workshop to refine research issues, develop sampling methodology and research proposals will be held before beginning the actual research activities. Ohio State University will assist each institution to prepare and submit its research proposal to the project Coordinator's Office for approval and release of funds for the research activities. Each institution will be responsible not only for field work but also for analysis, report writing and contributions to seminars.

1. Central Bank

The Central Bank will be the Grantee and the main Dominican counterpart for this project. The Bank will carry out its own studies of RFMs and will coordinate the studies carried out by the other institutions involved in the project. The Bank will conduct a study of saving behavior among a sample of depositors in financial institutions and a control group of non- depositors in project areas to determine savings mobilized and preferences toward financial institutions. In addition, the Bank will carry out special studies of formal and informal financial institutions such as commercial banks, finance companies, financial market policy and price policy. The Finance Department and Economic Studies Department of the Bank will participate in these studies. These studies will continue throughout the life of the project. The project will pay the field costs of the research and the Bank will allocate staff time for the research topics.

2. ISA

Based on field surveys carried out by ISA and other participating institutions, ISA will develop six case studies which can later be used for training of employees of formal financial institutions serving rural areas. The Center for Administration of Rural Development at ISA has experience in case study preparation and will assume the primary responsibility for writing the cases. The following topics have been tentatively identified for the case studies: loan delinquency and recovery, liquidity management, savings mobilization in banks, savings mobilization in credit unions, merchants and moneylenders, rotating credit societies (sanes), financial costs in relation to total agricultural production costs and opportunity costs of money invested in agriculture.

Field surveys of depositors and borrowers will be carried out in four of seven savings mobilization project areas. The field surveys will be coordinated with OSU research efforts. The purpose of these surveys is to estimate farmer borrowing costs by type of financial institution, farmer deposits by type of financial institution and the farmer-financial institution relationship. Other issues to be defined later will also be studied. Up to three faculty of the agricultural economics department of ISA will participate in the study of RFMs. Field study costs will be paid by the project and faculty time will be donated by ISA. Two communities will be studied in the first year and two in the second year.

3. UCMM

UCMM will have a major role in the study of informal financial markets in the savings mobilization project areas. To further define the informal and formal financial institution, as well as the number of users of these institutions and the amounts deposited or borrowed, a baseline study will be conducted by UCMM during the first year in all project areas. A socio-economic profile of participants in formal and informal RFMs classified by patterns of access to and use of capital in two of the savings mobilization project areas will be completed in the first year. A profile of community organizations in all seven project areas, which may serve as a vehicle to promote increased participation in formal rural financial markets, will be completed in year two. Transaction costs, the client-financial institution relationship and other aspects of financial intermediation will be studied in four of the seven savings mobilization project areas. Two communities will be studied each year. At least one faculty member from the economics department and possibly one from social work will participate in the research. Substantial interaction with OSU research capabilities is expected. Students at UCMM, ISA, and OSU will participate in the field studies.

4. SEA

SEA has two national surveys of credit at the farm level already completed but not yet analyzed. Valuable information on sources and uses of credit can be obtained from analysis of this information. The project will pay the costs of completing this analysis and publication of results during the first year. The agricultural economics and statistics staff at SEA will complete the analysis.

5. BAGRICOLA

The Agricultural Bank has carried out a sampling of its clients and their loans but not yet analyzed the data. Valuable information on credit worthiness of clients and repayment of bank loans can be obtained from analysis of the existing information on computer tapes.

6. OSU

The Ohio State University (OSU) has a four-year cooperative agreement with AID/Washington on "Rural Savings for Capital Mobilization," which began on July 1, 1982. Under this agreement, OSU will provide assistance to the DR savings mobilization project. The contribution from the cooperative agreement will be faculty time, support for two graduate students and organization of workshops and conferences, building library capacity at the Central Bank and sharing the experiences learned in other countries with the DR.

Since the cooperative agreement calls for work in four countries, it can be expected that up to 1/4 of the total cooperative agreement resources ($300,000 per year) will be allocated to the D.R. project.

The USAID/DR project funds will be used to provide further technical assistance on savings mobilization through an add-on to the cooperative agreement with OSU. The long-term technical advisor (Rural Savings Mobilization and Management Specialist) will provide assistance to BAGRICOLA and FEDOCOOP, and will assist in the research activities. Additional OSU assistance will focus on transaction costs (borrower costs and lender costs), lender behavior, informal financial markets, group lending, and policies that influence the monetary system and financial activities in general, policies directed at rural financial markets and policies that affect the rates of return that producers in rural areas expect from their investments.

D. Project Implementation Schedule

The following schedule provides a time frame for the implementation of major events in the project. This schecule may be modified as the plan of work is developed by the staff in the field.

MISSING PAGE
NO. 51

PROJECT IMPLEMENTATION SCHEDULE

	1983				1984				1985			
	1	2	3	4	1	2	3	4	1	2	3	4
Central Bank												
Research/Studies												
Savings Behavior							X	X	X	X		
Formal Financial Institutions						X	X					
Market Policy						X	X	X	X			
Price Policy										X		
Seminars				X		X				X		
ISA												
Research/Studies												
Loan Delinquency Recovery							X	X				
Liquidity Management							X	X				
Savings Mobilization-Bank							X	X				
Savings Mobilization - Credit Union								X	X			
Merchants - Moneylenders								X	X			
Sanes								X	X			
Farmer Loans						X	X					
UCMM												
Research/Studies												
Financial Facility Inventory						X	X					
Participant Profile								X	X			
Community Profile								X	X			
Field Studies - Intermediaries						X	X		X	X		
Seminars						X				X		

E. Financial Plan

TABLE 1

SUMMARY COST ESTIMATE AND FINANCIAL PLAN[1]

USE	AID FX	AID LC	Host Country LC	Host Country IN-KIND	TOTAL
Technical Assistance					
Long Term US	105	25			130
Short Term US	260	-	-	-	260
Long Term DR	-	-	95		95
Short Term DR	-	-	20		20
Evaluation	15	-	-	-	15
Commodities					
Vehicles	36	-	-	-	36
Equipment	30	-	-	-	30
Demonstration/Testing Support					
Savings Campaign	-	-	60	-	60
Liquidity Reserve Fund*	-	-	100	-	100
Research/Study Support	-	-	162	-	162
Operational/Logistical Support	-	-	113	75	188
Dissemination/Seminars	-	-	37	-	37
Personnel Local Institutions	-	-	-	50	50
Contingency	27	2	63	17	109
TOTAL	473	27	650	142	1,292

1 Summary Cost Estimates do not include resources to be provided under the terms of the AID/W Cooperative Agreement with Ohio State University.

TABLE 2

PROJECTION OF HOST COUNTRY CONTRIBUTION

(RD$ 000)

ACTIVITY	BANCO CENTRAL	BANCO AGRICOLA	FEDOCOOP	UCMM	ISA	SEA	TOTAL
Technical Assistance (In-country Procurement)							
DR Project Coordinator (24 pm)	48	-	-	-	-	-	48
DR Coordinator Secretary (24 pm)	17	-	-	-	-	-	17
DR Management Specialist	-	-	30	-	-	-	30
DR Short Term T.A.	-	20	-	-	-	-	20
Demonstration/Testing Support							
Savings Campaigns	-	30	30	-	-	-	60
Liquidity Reserve Fund	-	50	50	-	-	-	100
Research/Study Support	63	-	-	42	42	15	162
General Project/ Logistic Support	33	30	25	10	10	5	113
Dissemination/Seminars	30	-	-	7	-	-	37
Contingency	29	8	14	5	5	2	63
TOTAL	220	138	149	64	57	22	650

TABLE 3

PROJECTION OF IN-KIND CONTRIBUTION

(RD$ 000)

ACTIVITY	PUBLIC SECTOR			PRIVATE SECTOR		
	BANCO CENTRAL	BANCO AGRICOLA	SEA	FEDOCOOP	OTHERS	TOTAL
1. Operational and Logistical Support	20	30	5	10	10	75
2. Personnel-Local Institutions	15	15	5	10	5	50
3. Contingency	10	3	1	2	1	17
TOTAL	45	48	11	22	16	142

TABLE 4

Projection of Expenditures by Fiscal Year

(US $ 000)

SOURCE	FY 83 Aug. 1, 1983 - Sept. 30, 1983 AID	IN-KIND	HOST COUNTRY	TOTAL	FY 84 Oct. 1, 1984 - Sept. 30, 1985 AID	IN-KIND	HOST COUNTRY	TOTAL	FY 85 Oct. 1, 1985 - Jan. 31, 1986 AID	IN-KIND	HOST COUNTRY	TOTAL
1. Technical Assistance												
a) Long-Term	59	-	6	65	59	-	44	103	12	-	45	57
b) Short-Term	120	-	4	124	120	-	8	128	20	-	8	28
c) Evaluation	-	-	-	-	15	-	-	15	-	-	-	-
2. Commodities												
a) Vehicles	36	-	-	36	-	-	-	-	-	-	-	-
b) Equipment	29	-	-	29	1	-	1	-	-	-	-	-
3. Others												
a) Savings Campaign	-	-	-	-	-	-	30	30	-	-	30	30
b) Liquid Reserve Fund	-	-	50	50	-	-	50	50	-	-	-	-
c) Research/Studies	-	-	15	15	-	-	80	80	-	-	67	67
d) Operational and Logistic Support		15	10	25		30	50	80	-	30	53	83
e) Dissemination/ Seminars	-	-	-	-	-	-	20	20	-	-	17	17
f) Personnel Local Institutions	-	10	-	10	-	20	-	20	-	20	-	20
4. Contingency	6	5	13	24	11	8	25	44	12	4	25	41
TOTAL	250	30	98	378	206	58	307	571	44	54	245	343

F. Procurement Schedule

AID is funding the procurement of a long-term technical advisor, short-term consultant services, evaluation personnel, two vehicles and a limited quantity of office machines and supplies essential for undertaking the pilot savings mobilization programs, research enumeration and analyses. Consumables will be procured only in instances where such items are additional to the normal ongoing operations of the participating institutions. Procurement of U.S. origin advisory, consultant and evaluation personnel will be done through the normal PIO/T procurement process. The vehicles (U.S. origin) will be procured by the Central Bank in accordance with AID and GODR procurement regulations. U.S. funded equipment and supplies will be procured locally by the Central Bank, except where U.S. assisted procurement is advantageous because of time or cost.

1. Technical Personnel

a. Dominican RSM Coordinator's Office

The RSM project coordinator position will be a temporary position established by the Central Bank to serve during the life of the project. Local currency (RD$48,000) is programmed to meet salary costs.

A bilingual secretary for the Coordinator's Office will be hired by the Central Bank in the Dominican Republic. Local currency (RD$17,000) is programmed to meet salary costs.

b. FEDOCOOP

An Administration and Management Specialist will be hired for a two-year period to assist credit union staff develop savings and loan portfolio administration and management capabilities. Local currency (RD$15,000 per year) is programmed.

c. Long-Term U.S. Technical Advisor

The services of a Rural Savings Mobilization and Management Advisor will be procured for 24 months through the ongoing AID/W - Ohio State University Cooperative Agreement (936 - 5313), Rural Savings for Capital Mobilization Services. This will require an addition of $105,000 to the Cooperative Agreement over a two-year period. USAID/DR will retain funds ($25,000) to meet locally incurred support costs, i.e. housing, education, R&R, local per diem and logistical support. The Grantee will provide office space, work related logistical support and project related in-country travel. The selection of this advisor will be done with the joint approval and concurrence of the Grantee and USAID/DR.

d. Short-Term Consultant Services

Approximately 29 person-months of technical assistance will be provided to the project over a two-year period through the AID/W Ohio State University cooperative agreement. Potential areas of technical assistance are:

Short-Term Technical Assistance

Subject Matter Area	Year 1	Year 2
Monetary and financial policy	2 pm	1 pm
Rural financial market policy	2 pm	1 pm
Macro and micro savings behavior	2 pm	2 pm
Transaction costs of borrowers, depositors and lenders	2 pm	1 pm
Group lending	2 pm	1 pm
Lender behavior and financial management	2 pm	1 pm
Informal financial market	2 pm	2 pm
Rate of return in agriculture	2 pm	1 pm
Financial Management	2 pm	1 pm

These services will be procured through an additional input of $251,000 to the AID/W - Ohio State Cooperative Agreement. Local support (i.e. office space, secretarial requirements, access to in-country travel) will be provided by the Grantee and participating institutions.

2. Participant Training

Participant training may be provided under the AID/GODR Agricultural Training Project presently being developed. RD$8,500 per year has been reserved for local travel and per diem for three OSU graduate students for three months each in support of field studies to be undertaken by UCMM and ISA under the Central Bank's research allocation of host country funds. Payment will be made through the Central Bank.

Support for two Dominican students per year working toward degrees in rural savings at OSU will also be provided by the centrally funded AID/OSU cooperative agreement. This will have a cost of $40,000 over a two-year period.

3. Commodities

a. Vehicle

Two all-purpose type vehicles (i.e. carryall, station wagon) will be procured for the project in support of the rural savings mobilization activities. Procurement will facilitate the utilization of technical and support services provided under the project through the Coordinator's Office of the Central Bank. Foreign exchange ($36,000) has been reserved for this purchase.

b. Support Equipment and Supplies

Thirty-thousand dollars ($30,000) of foreign exchange is programmed in the project to finance additional equipment i.e. savings account machines, software and consumables required to carry out rural savings mobilization in the four Agricultural Bank branches and four credit unions. The identification of specific requirements will be made during the formulation of the first year's detailed operational plan. Procurement will be carried out by the Central Bank except where U.S. assisted procurement is advantageous because of time or cost.

4. Evaluation

Fifteen-thousand dollars ($15,000) of project funds will be provided to fund the external evaluation scheduled for month twenty of the project. AID will procure these services under its standard procurement procedures.

G. Monitoring/Reporting and Evaluation

Evaluation is an essential component of this project and will be a continuing process involving GODR implementing institutions, USAID/DR project management staff, long-term and short-term technical consultant staff and an independent external evaluation team. A continuous evaluation process is considered essential, because the demonstration/testing phase will be somewhat experimental in nature. An analysis of the results and their causes on an ongoing basis will be needed to make rational adjustments to implementation plans within the pilot areas, and will serve to develop local staff capabilities in administration and management. While the research plan is problem specific, modifications may well be required once the mobilization process becomes operational in the pilot areas. The requirement of a scheduled quarterly report by all participating institutions (national and local levels) will help expand the capabilities for planning, administration and analysis of the Project Coordinator and the Operational Group Staff.

The reporting and evaluation process as outlined above will enable the GODR Central Bank and Monetary Board in particular, to understand early the ramifications of an enlarged program and any monetary policy modification needed.

1. Quarterly and Annual Reports

Quarterly reports for each of the first three quarter's of the calendar year and an annual report at the close of the fourth quarter will be prepared by all institutions and their sub-units participating in this project. These reports will be submitted to the Office of the Project Coordinator, Central Bank within thirty calendar days of the close of the of the quarter. The accepted language for preparation of the reports will be Spanish. Copies of all reports will be distributed by the Project Coordinator's Office to all members of the Rural Savings Advisory Council in the Operational Group, with an additional copy submitted to USAID. Distribution of reports to institutional sub-units, i.e. branch banks, credit unions, and research teams will be the responsibility of the appropriate institutional representative serving as the permanent member on the Operational Group.

a. Credit Unions and BAGRICOLA Branches

Quarterly and annual reports by the four Agricultural Bank branches and the four credit unions under FEDOCOOP should address, inter alia:

(1) New accounts opened
(2) Total new funds mobilized
(3) Actual balances of savings
(4) Loans made during reporting period
(5) Delinquency on all loans
(6) Delinquency on new loans i.e. loans made since start of mobilization program
(7) Type and cost of savings campaigns during the reporting period
(8) Discussion of problems
(9) Solution of problems

The exact format will be determined in consultation with the support members of the Operational Group.

b. Research Institutions

The institutions (UCMM, ISA, SEA, Central Bank) implementing the research segment of the project will, in addition to the quarterly and annual report, submit ten copies of the final research papers to the Office of the Project Coordinator. The quarterly reports and annual reports related to research will be prepared in a manner to be research/study specific and address, inter alia:

(1) Title of Research Activity (ies)
(2) Objectives
(3) Description
(4) Accomplishments i.e.
    (a) Questionaires developed
    (b) Interviews completed
    (c) Status of data tabulation

(d) Reports published
(e) Presentation made
(5) Plans for next quarter
(6) Problems encountered
(7) Proposed solutions to problems

2. Consultant Reports

Each short-term consultant must provide USAID and the GODR with a report (in English) which outlines their objectives, findings, conclusions and recommendations prior to their departure from the Dominican Republic.

3. Technical Advisor Reporting

The long-term technical advisor will provide the AID Project Manager with an implementation status report on a monthly basis. This report will address *inter alia*:

(1) Status of implementation
(2) Problem identification
(3) Problem solution
(4) Accomplishments
(5) Activity projection for upcoming month

A final report will be submitted to AID and the GODR upon completion of the contract and will include:

(1) Technical analyses
(2) Administrative and management analyses
(3) Progress evaluation
(4) Recommendations

4. Comprehensive Evaluation

The project will be evaluated upon the completion of a full calendar year's work in the implementation of the pilot rural savings mobilization demonstration/testing segment. It is estimated that this evaluation would take place about twenty months from the date of signing of the project agreement. An external evaluation team will be made available and financed under funds (estimated at $15,000) reserved from the U.S. foreign exchange component provided to the project through AID. Both the demonstration/testing and research segments of the project will be evaluated at this time. Participants in this evaluation process will include representation from AID/W, USAID/DR and Ohio State University, in addition to GODR representatives. The specific technical requirements and specific scope of work of the external team will be determined by AID and the GODR four months prior to implementation of the formal evaluation.

UNITED STATES GOVERNMENT

memorandum

DATE: April 6, 1983

REPLY TO ATTN OF: [signature] Zimmermann, A/CRDO

SUBJECT: Rural Savings Mobilization PID (No. 517-0179)

TO: Phil Schwab, Director

Your approval is required for the Rural Savings Mobilization Project Identification Document. The PID involves a $500,000 grant. The Grantee will be the Government of the Dominican Republic acting through the Central Bank. The major implementing agencies will be the Central Bank, the Banco Agrícola and the Dominican Federation of Savings and Credit Cooperatives (FEDOCOOP).

Discussion: The goal of the project is to increase agricultural production in rural areas and to increase incomes of rural poor. Two inter-related subgoals are: (1) to improve the viability of rural financial institutions and, (2) to expand access of rural poor to savings and credit services. The project purpose is to demonstrate to other formal financial institutions the ability of FEDOCOOP and BAGRICOLA to mobilize savings in rural areas.

The $1.2 million project ($500,000 AID grant; $500,000 GODR counterpart contribution; $192,000 - implementing agency in-kind contribution) is expected to: (1) extend financial services to rural areas currently not served and mobilize savings deposits in these areas; (2) establish units in Dominican institutions (Central Bank, UCMM, ISA, BAGRICOLA, SEA) responsible for studies of rural savings mobilization; and (3) disseminate the results of policy studies, financial market studies and savings mobilization activities especially to those in policy making positions (Junta Monetaria) and to other financial institutions, so that an expanded project can be developed.

The PID was reviewed by the USAID Project Committee on Monday March 21, 1983, and again on Friday March 25, 1983. Based on the recommendations of the Committee the following changes were made in the PID: The Background Section was redrafted to reflect more closely the USAID development strategy, the GODR policy environment and the perceived problems and constraints addressed by this proposed project. The financial plan was more explicitly developed to demonstrate expenditures by project year, host country contribution, and implementing agency in-kind contribution. The issues section was expanded to reflect concerns of the committee that will be examined in the intensive review. The scopes of work for the technical consultants required to develop the project paper were revised and included as Annex F.

Initial Environmental Examination: The Initial Environmental Examination for the project, recommending a categorical exclusion determination was signed by the Regional Environmental Advisor. Your concurrence is required.

Justification to Congress: The Project was included in the FY 84 Congressional Presentation. An Advice of Program change will need to be forwarded to Congress reflecting the change in fiscal year funds. Also a request for additional grant funding of $75,000 for FY 83 will be sent to AID/W.

Authority: As per Redelegation to the Field No. 2 dated April 18, 1982, the Mission Director is authorized to approve PIDs not in excess of $500,000 without the prior approval of the LAC Bureau.

Recommendation: That you sign the attached Project Identification Document Facesheet approving the Rural Savings Mobilization PID and that you concur with the recommendation for a negative environmental determination by signing the Initial Environmental Examination.

Enclosure: a/s

(2)

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT IDENTIFICATION DOCUMENT FACESHEET (PID)

1. TRANSACTION CODE: A = Add, C = Change, D = Delete — Revision No. ___

DOCUMENT CODE: 1

2. COUNTRY/ENTITY: USAID/DR

3. PROJECT NUMBER: [517-0179]

4. BUREAU/OFFICE: A. Symbol: LAC; B. Code: [05]

5. PROJECT TITLE (maximum 40 characters): [Rural Savings Mobilization]

6. ESTIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION

- A. Initial FY: 83
- B. Final FY: 84
- C. PACD: 85

7. ESTIMATED COSTS ($000 OR EQUIVALENT, $1 =)

FUNDING SOURCE	LIFE OF PROJECT
A. AID	500
B. Other U.S. 1.	
B. Other U.S. 2.	
C. Host Country	692
D. Other Donor(s)	
TOTAL	1,192

8. PROPOSED BUDGET AID FUNDS ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. PRIMARY TECH. CODE 2. Loan	D. 1ST FY 83 1. Grant	D. 1ST FY 83 2. Loan	E. LIFE OF PROJECT 1. Grant	E. LIFE OF PROJECT 2. Loan
(1) FN	240	043		75		500	
(2)							
(3)							
(4)							
TOTALS				75		500	

9. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

10. SECONDARY PURPOSE CODE

11. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BR	RGEN	COOP
B. Amount	43%	100%	50%

12. PROJECT PURPOSE (maximum 480 characters)

To demonstrate to other formal financial institutions the ability of FEDOCOOP and BAGRICOLA to mobilize voluntary savings in rural areas.

13. RESOURCES REQUIRED FOR PROJECT DEVELOPMENT

Staff: Administrative & Financial Specialist, 1 p/m, Contract
Sociologist, 2 p/w, Contract
Savings Specialist, 2 p/w, Contract
Financial & Institutional Analyst/Credit Unions, 2 p/w, Contract
Financial & Institutional Analyst/Banco Agrícola, 3 p/w, Contract

Funds: $31,500 PD&S

14. ORIGINATING OFFICE CLEARANCE

Signature: Kenneth C. Ellis

Title: Agriculture & Rural Development Officer

Date Signed: MM 04 DD 04 YY 83

15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

16. PROJECT DOCUMENT ACTION TAKEN: [A]

S = Suspended, A = Approved, D = Disapproved, CA = Conditionally Approved, DD = Decision Deferred

17. COMMENTS

18. ACTION APPROVED BY

Signature: Philip R. Schwab

Title: Mission Director

19. ACTION REFERENCE: Action Memorandum to the Director

20. ACTION DATE: MM 04 DD 06 YY 83

AID 1330-2 (6-79)

Best Available Document

BANCO CENTRAL DE LA REPUBLICA DOMINICANA

SANTO DOMINGO, R. D.

(AÑO DE LA REFORESTACION)

14415 18 AGO. 1983

Señor
Philip R. Schawb
Director Agencia para el
Desarrollo Internacional (AID)
SU DESPACHO.

Ref. Proyecto de Movilización de Ahorros Rurales.

Distinguido señor Director:

En relación con el asunto de referencia y tomando en consideración los esfuerzos que esa Agencia ha venido desarrollando en lo que respecta a la ejecución del proyecto destinado a la movilización de ahorros-rurales; hemos considerado pertinente iniciar los trámites correspondientes, mediante esta comunicación, a fin de obtener una donación de esa Agencia por US$500,000.00 que sirva de complemento a los RD$650,000.00 que han sido aportados por el Gobierno Dominicano, con el propósito de financiar la ejecución del proyecto indicado.

El proyecto para movilización del ahorro rural está diseñado para demostrar la factibilidad del incremento de las operaciones de crédito a través de instituciones financieras formales en el país.

El Banco Central ha sido elegido como la institución coordinadora del proyecto, participando además las siguientes instituciones: el Banco Agrícola, la Federación Dominicana de Cooperativas de Ahorro y Crédito y Servicios Múltiples, Secretaría de Estado de Agricultura, Universidad Católica Madre y Maestra, Instituto Superior de Agricultura y Secretariado Técnico de la Presidencia.

ACTION: CRD	
DATE DUE: 8-29-83	
DIR	/
DD	/
PRG	
CRD	/
CONT	/
AGF	/
MCT	
HAN	
C+R	/
EDU	
UDD	

65

BANCO CENTRAL DE LA REPUBLICA DOMINICANA

SANTO DOMINGO R. D.

14415

Estas instituciones participan en el proyecto piloto que se comenta, en razón de que juegan un papel determinante en las actividades de movilización de ahorros, investigación, análisis y diseminación de la información que generará el proyecto.

Mucho agradeceríamos sus gestiones en procura de agilizar la culminación de los pasos que permitan concertar, en el menor tiempo posible, el convenio de donación mencionado.

En espera de sus noticias, queda de usted con mis mayores sentimientos de colaboración y estima.

Muy atentamente,

Bernardo Vega
Gobernador.

REPUBLICA DOMINICANA

Secretariado Técnico de la Presidencia

SANTO DOMINGO, D. N.

"AÑO DE LA REFORESTACION"

2065

27 JUN. 1983

Señor
Philip R. Schwab
Director Agencia para el Desarrollo Internacional (AID).
SU DESPACHO.

Ref. "Proyecto de Asistencia Técnica/Diagnóstico Sobre Mercados Financieros."

Distinguido señor Director:

Como es de su conocimiento, este Secretariado Técnico de la Presidencia ha iniciado acciones encaminadas a dotar de los recursos correspondientes al proyecto de referencia, por una suma equivalente a RD$650.0 mil pesos en adición a la donación que, por US$500.0 mil, se gestiona ante esa Agencia.

La consecución de los fondos iniciales por RD$250.0 mil, se podrán deducir del monto asignado al Bagrícola por RD$5.0 millones, pertenecientes al proyecto "Financiamiento a Pequeños Productores Agrícolas", del PL-480, año Fiscal 1982. Con respecto a esta acción, ya se cuenta con la anuencia de esa entidad bancaria por lo que presentamos esta modificación para, en coordinación, efectuar los ajustes correspondientes en la programación original que constituye el anexo B del Acuerdo mencionado.

En relación a los $400.0 mil restantes, sería factible asignarlo del monto que corresponde al Bagrícola del PL-480, año Fiscal 1983, dado que es la institución rectora del crédito al sector agropecuario y, precisamente, el diagnóstico a que se refiere el proyecto, vendrá a beneficiar en sumo grado los servicios que presta esa entidad de financiamiento agrícola.

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Carta a:
Sr. Philip R. Schwab

Los recursos que aquí se indican, serán entregados al Banco Central, en su calidad de coordinador oficial para la ejecución del proyecto. En comunicación dirigida a esa entidad bancaria, hemos delineado a grandes rasgos las funciones que deberá llevar a cabo en cumplimiento a su papel de coordinación.

Mucho agradeceríamos, saber sus noticias en lo que respecta a las modificaciones sugeridas y encaminadas por este Secretariado Técnico de la Presidencia con el propósito de garantizar la marcha y ejecución del referido proyecto.

Muy atentamente,

Ing. Ramón Alburquerque R.
Secretario Técnico de la Presidencia

RAR
MAG
JLMM/nmm.

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 1983 to FY 1985
Total U.S. Funding $500,000 (G)
Date Prepared: May 1983

Project Title & Number: Rural Savings Mobilization: 517-0179

1.1) Program or Sector Goal: To stimulate production and improve income distribution by innovative approaches to rural savings and credit.

Sector Sub-goals
a) To improve viability of rural financial institutions so they can be responsive to rural development needs.
b) To expand access of rural poor to savings and credit services.

1.2 Measures of Goal Achievement: Significant increased contribution by the rural sector to GDP and increased income for rural poor.

1.3) Means of Verification Published data and reports by Central Bank and other government agencies.

1.4) Important Assumptions: Assumptions for achieving Goal Targets
a) [illegible] policies for savings mobilization are supportive and adequately improved.
b) Overall socio-economic conditions do not deteriorate further.

2.1) Project Purpose
To demonstrate to the Dominican Government and financial institutions the feasibility of mobilizing voluntary savings in rural areas.

2.2) Conditions that will indicate Purposes have been Achieved: End of Project Status:
a) Existence of eight (8) viable financial offices providing savings and credit services to the rural poor in project area.
b) Additional savings generated (RD$6,000,000) and loans increased with reduced default rate.
c) Larger credit project identified based on analysis of RFS's and savings mobilization accomplishments.

2.3)
a) Participating credit union records.
- BAGRICOLA and participating branches records;
- Central Bank and Superintendent of Banks' records;

b) Joint BAGRICOLA/FEDOCOOP/Central Bank/USAID evaluations.
c) Visits to participant credit unions and BAGRICOLA branches.
d) Interviews of participant credit union members and BAGRICOLA clients.

2.4) Assumptions for Achieving Purposes:
a) Savings opportunities draw resources out of unproductive uses resulting in credit availability to more productive uses.
b) Improved access to savings and credit will lead to implement savings mobilization programs.
c) Other institutions than those participating are willing to implement savings mobilization programs.

3.1) Outputs:
a) Expansion of savings and credit services in four selected credit unions and four selected BAGRICOLA branches
b) Establishment of capability in Central Bank and other Dominican institutions for monitoring and evaluating performance of RFM's.
c) Savings being generated and credit expanded in areas of project influence.
d) Establishment of liquid reserves to meet possible deposit withdrawals.
e) Reports, studies, workshops and seminars.
f) Final Assessment Report and strategy for program expansion.

3.2) Magnitude of Outputs:
a) At least three credit unions actively mobilizing savings.
At least three BAGRICOLA branches providing deposit facilities.
b) At least 1 technician in FEDOCOOP affiliates and BAGRICOLA monitoring and evaluating savings performance of the institutions.
- At least one staff member in Central Bank, Superintendent of Banks, [illegible] and ISA evaluating performance of RFM's.

c) At least RD$[illegible],000,000 in additional savings generated and lent with less than 10% default rate.
d) Reserves "adequate" (starting with 10% of additional savings generation) to cover possible withdrawals without holding excessive idle funds.
e) At least five seminars and workshops being held.
- At least 15 reports being published on savings mobilization and RFM's

3.3)
a) FEDOCOOP and BAGRICOLA records.
b) Records of participant credit unions, BAGRICOLA branches, Central Bank, ISA, [illegible], and Superintendent of Banks.
c) Progress evaluations of participant institution.
d) Published reports.
e) Mid-term evaluation.
f) Monitoring reports.

3.4) Assumptions for Achieving Outputs:
a) Participant credit unions FEDOCOOP and BAGRICOLA receptive to implementation of appropriate incentives for savings mobilization.
b) Savings mobilization programs are successful.

4.1)

	AID ($000) FX	GODR (RD$000) In Kind LC	GODR (RD$000) Other LC
a) Technical Assistance			
1) - Long Term (24 p/m)	130	-	95
2) - Short Term (29 p/m)	275	-	20
b) Commodities	66	-	-
c) Other Expenses	-	125	492
d) Contingencies & Installation (8%)	29	17	63

4.2) (see AID and GODR columns in the table above)

4.3)
- USAID accounting records.
- Audit reports.

4.4) Assumptions for Providing Inputs:
a) USAID funds available on a timely basis.
b) FEDOCOOP, credit unions and BAGRICOLA institutional capacities and financial viability are adequate for project implementation.
c) Willingness of participant credit union, and BAGRICOLA branches to undertake appropriate measures.
d) Appropriate technical assistance and commodities are available on a timely basis.

5C (1) COUNTRY CHECKLIST

Listed below are, first, statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481. Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?

   No

2. FAA Sec. 620 (c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such a citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?

   No

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3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? — No

4. FAA Sec. 532 (c), 620 (a), 620 (f), 620D; FY 1982 Appropriation Act Secs. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver? — No

5. ISDCA of 1981 Secs. 724, 727 and 730. For specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restrictions on assistance to El Salvador, see Secs. 727 and 730 of the ISDCA of 1981. — N/A

6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property? — No

7. FAA Sec. 620 (l). Has the country failed to enter into an agreement with OPIC? — No

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8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? N/A

(b) If so, has any deduction required by Fishermen's Protective Act been made?

9. FAA Sec. 620 (q); FY 1982 Appropriation Act Sec. 517. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? No (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds? No

10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.) N/A

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No

12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taxing into Consideration memo.)

Current

13. FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism?

No

Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?

No

14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under FAA?

No

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15. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements on safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) — No

16. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)

N/A

17. ISDCA of 1981 Sec. 721. See special requirements for assistance to Haiti.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

No

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

No

b. ISDCA of 1981, Sec. 725 (b). If ESF is to be furnished to Argentina, has the President certified that (1) the Government of Argentina has made significant progress in human rights; and (2) such assistance is in the national interests of the U.S.?

N/A

c. ISDCA of 1981, Sec. 726 (b). If ESF assistance is to be furnished to Chile, has the President certified that (1) the Government of Chile has made significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the Government of Chile is not aiding international terrorism and has taken steps to bring to justice those indicated in connection with the murder of Orlando Letelier?

N/A

5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable generally to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to project funded from specific sources only: B.1. applies to all projects funded with Development Assistance Funds, B.2. applies to projects funded with Development Assistance Loans, and B.3. applies to projects funded from ESP.

CROSS REFERENCES:

IS COUNTRY CHECKLIST UP TO DATE?	Yes.
HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?	Yes.

A. GENERAL CRITERIA FOR PROJECT

1. FY 82 Appropriation Act Sec. 523; FAA Sec. 634A; Sec. 653(b).	
(a) Describe how authorizing and appropriations Committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that amount)?	(a) Project was included in FY 84 Congressional Presentation. A Congressional Notification for FY 1983 funding will be forwarded to Congress prior to obligation of funds.
2. FAA Sec. 611(a)(1). Prior to obligation in excess of $100,000, will there be (a) engineering, financial, other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?	Yes
3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?	Project needs to be ratified by the Dominican Congress. Timely approval by the Congress has been the form. No delays in ratification are expected.

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4. FAA Sec. 611 (b); FY 1982 Appropriation Act Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources daced October 25, 1973? (See AID Handbook 3 for new guidelines.)	N/A
5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?	N/A
6. FAA Sec. 209. Is project susceptible of execution as part of regional or multilateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.	No .
7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	7(c) is applicable and a major thrust of the project. Plan and background provided in Project Paper documentation and implementation plan and schedule.

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8.	FAA Sec. 601 (b). Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of pr..ate trade channels and the services of U.S. private enterprise).	N/A
9.	FAA Sec. 612(b); Sec. 636(h); FY 1982 Appropriation Act Sec. 508. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.	GODR participation in planning and developing Project Paper and identification of host country LX contribution and support requirements.
10.	FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No
11.	FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes Yes.
12.	FY 1982 Appropriation Act Sec. 522. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar, or competing commodity?	N/A

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13. FAA 118(c) and (d).
Does the project comply with the environmental procedures set forth in AID Regulation 16? Does the project or program take into consideration the problem of the destruction of tropical forests. N/A

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)? N/A

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b); Sec. 111; 113; 281 (a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

(a) Project will provide the rural population access to conveniently placed banking windows where they can become a contributor to the development process, receive an equitable return on accumulated savings, and increase their capability to receive and manage credit.

(b) General Cooperative Credit Unions will be included in the institutions selected to test and demonstrate the mobilization of rural savings.

(c) Project efforts will encourage individual participation, increase private capital flow back into the development process within the local rural sector.

(d) Participation of women is expected. Studies will be designed to ascertain wether special programs are required to encourage women's participation.

(e) Prior experience of other countries were a factor initiating and developing the project. Information will continue to be exchanged.

b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?

Yes

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c. <u>FAA Sec. 107.</u> Is appropriate emphasis on use of appropriate technology? (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?	Yes
d. <u>FAA Sec. 110(a).</u> Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement been waived for "relatively least-developed" country)?	Host country will provide at least 25% of project costs.
e. <u>FAA Sec. 110(b).</u> Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least-developed?" (M.O. 1232.1 defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than $100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character.	No.

f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

Project supports development of both administrative and technical personnel through OJT, seminars and direct participation in study and testing modes. Campaigns carried out within the pilot areas will serve to educate the local popolace on the management of their personal financial resources.

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

N/A

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

N/A

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy directions of section 102?	Yes
b. FAA Sec. 531 (c). Will assistance under this chapter be used for military, or paramilitary activities?	No
c. FAA Sec. 534. Will ESP funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives.	N/A
d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements be made?	N/A

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? — **Yes**

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? — **Yes**

3. FAA SEc. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? — **N/A**

4. FAA Sec. 604(e); ISDCA of 1980 SEc. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) — **N/A**

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5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? — N/A

6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates? — No

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? — Yes
If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? — Yes

8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? — Yes

9. FY 1982 Appropriation Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? — **Yes**

B. Construction

1. FAA Sec. 601 (d). If capital (e.g., construction) project, will U.S. engineering and professional services to be used? — **N/A**

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — **N/A**

3. FAA Sec. 602(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP)? — **N/A**

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? — **N/A**

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administed by an international organization, does Comptroller General have audit rights? — **N/A**

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3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communit-bloc countries? — Yes

4. Will arrangements preclude use of financing:

a. FAA Sec. 104(f); FY 1982 Appropriation Act Sec. 525: (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion? — Yes

b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? — Yes

c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? — Yes

d. FAA Sec. 662. For CIA activities? — Yes

e. <u>FAA Sec. 636(i)</u>. For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?	Yes
f. <u>FY 1982 Appropriation Act, Sec. 503</u>. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel?	Yes
g. <u>FY 1982 Appropriation Act, Sec. 505</u>. To pay U.N. assessments, arrearages or dues?	Yes
h. <u>FY 1982 Appropriation Act, Sec. 506</u>. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)?	Yes
i. <u>FY 1982 Appropriation Act, Sec. 510</u>. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields?	Yes
5. <u>FY 1982 Appropriation Act, Sec. 511</u>. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?	No
6. <u>FY 1982 Appropriation Act, Sec. 515</u>. To be used for publicity or propaganda purposes within U.S. not authorized by Congress?	No

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INITIAL ENVIRONMENTAL EXAMINATION

Project Location	:	Dominican Republic
Project Title	:	Savings Mobilization
Funding	:	$500,000 Grant
Life of Project	:	Two years, FY-1983/FY-1985
IEE Prepared by	:	James J. Talbot, Ph. D Regional Environmental Management Specialist/Caribbean

James J Talbot — 23 March 1983

Signature — Date

Environmental Action Recommended: Categorical Exclusion

Concurrence: Philip A. Schwab, Director USAID/DR

4/6/83

Signature — Date

Full text of IEE attached to PID and Project Files.

INSTITUTIONAL/FINANCIAL ANALYSIS

BANCO AGRICOLA

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INSTITUTIONAL/FINANCIAL ANALYSIS

BANCO AGRICOLA DE LA REPUBLICA DOMINICANA

RURAL SAVINGS MOBILIZATION PROJECT

I. BACKGROUND ANALYSIS - PROJECT PURPOSE AND THE INTEREST RATE QUESTION

A) Purpose

As quoted from the Project Paper the purpose of the project is to demonstrate the feasibility of mobilizing voluntary savings in rural areas. In addition to the well known macro-economic benefits of savings mobilization, as a key ingredient to the stimulation of investment and economic growth, it is worthwhile to consider some of the specific potential benefits of rural savings mobilization in the Dominican Republic, and some of the short and long term AID objectives in promoting this project.

In this case, a primary objective of the project is to provide an investment alternative to the rural citizen such that:

i) Idle savings balances can be returned to the economic mainstream and put to work through the banking system while providing rural savers with a positive real rate of return on their savings. Idle savings can be identified as currency (M-1) which, in effect, is <u>out</u> of circulation and is simply being held (hidden) by the rural individual as a form of savings. (Interviews with rural branch managers of BAGRICOLA reveal that these idle balances may be substantial in some areas of the Country).

ii) Rural savings currently invested in physical assets which may not be yielding adequate real rates of return in relation to the risk of holding those physical assets can be converted into financial assets such that the rural saver may achieve a better balance between risk and return together with improved liquidity of the investment.

In the context of this project it can be concluded that some of the immediate macro-economic effects of the project will be the following:

i) To improve economic/monetary efficiency in rural financial markets.

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ii) To the extent that idle savings are re-invested into the monetary mainstream, to once again pursue goods and services, there will be a once and for all effective increase in money supply equivalent to the magnitude of idle savings mobilized (currency out of circulation put back into circulation) times the multiplier effect of the banking reserve requirement. Since the savings will be mobilized in the agricultural credit unions and in the agricultural bank, at least a portion of the increased resources will initially be re-directed into agricultural credit. In the long run, however, due to the fungibility of money, the effect will be to simply increase credit in the economy as a whole.

iii) To the extent that rural savers shift from less attractive physical assets to preferred financial assets there will be no monetary or inflationary effect since increased demand for one type of asset is offset by decreased demand for another.

Further objectives of the AID Rural Savings Mobilization Project:

In addition to the above mentioned objectives of the project there is another key objective to be achieved through rural savings mobilization. This objective is to bring about, over the long term, a major change in monetary policy regarding the regulation of interest rates, such that interest rates adequately reflect the price of money as set by the market forces of supply and demand.

B. The Real Rate of Interest, Inflation, and the Cost of Money

Interest rates in the Dominican Republic are not governed by market forces, but rather, are manipulated and established by the Monetary Board. The Monetary Board is a group of learned and influential individuals, appointed by the President to set policy on monetary matters such as money supply, foreign exchange and balance of payment related issues. The members of the Monetary Board are chosen, among other criteria, because they represent different sectors of the economy. Of particular importance to this project is the fact that none of the current members of the monetary board have as constituency the individual depositor and saver. In fact, it is clear that representation is varied only in that many different sectors which utilize credit are represented on the Board. This is not unusual, in that savers and depositors rarely have effective lobbies in any country, however, the implication is clear that there is a built in bias on the Monetary Board to provide cheaper credit to the "productive" sectors of the economy at the expense of the saver. In effect, the tendency of the Monetary Board will be to force the saver to subsidize the borrower by keeping rates below those which would be set at market clearing levels as a result of financial intermediation.

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This is not a new problem. In fact it was only three or four years ago that the creation of the money market funds in the United States finally provided a vehicle for the U.S. depositor to achieve a real rate of interest on his savings. It will take a major effort of persuasion on the part of AID to influence changes in the area of interest rates for savers in the Dominican Republic.

Official figures for inflation indicate that the rate of increase in price levels in the Dominican Republic has been comparatively moderate relative to that of other developing countries. During the late 70's the oil price increases contributed to higher rates of inflation whereas the 1981-82 worldwide recession and the recent low commodity export prices obtained for Dominican exports have tended to produce relatively moderate levels of inflation for the last two years. Unofficial estimates of the real rate of inflation tend to support the official figures published by the Central Bank.

OFFICIAL ESTIMATES OF INFLATION
(Source: Central Bank)

1978-79	9.2%
1979-80	16.8%
1980-81	7.5%
1981-1982	9.6%

Based on an estimated inflation rate of approximately 9%, and the assumption that depositors in the system would require a real rate of return of 3-4% over the deposit rate, it would appear reasonable to expect that competitive forces would establish a savings rate of approximately 12% p.a.

Since the reserve requirement on savings for banks is fully 30%, the cost to the financial institutions of a time deposit or saving account would translate into a marginal cost of funds of 17 - 18.5% p.a. If a bank were to operate under the above cost structure its lending rate would have to be a few percentage points higher than 17 - 18.5% p.a. in order to cover administrative costs, reserve for bad debts and profit.

It is apparent from examining the pricing structure currently in place in the D.R. that only the commercial banks are capable of achieving the required yields to cover inflation plus costs. Financieras survive in the system largely as a result of utilizing subsidized funds made available by the Central Bank through its FIDE program.

Because of the above considerations the project design attempts to force the effective rate of interest which the financial institutions participating in the rural savings mobilization program pay to their depositors high enough so as to provide savers with a positive rate of return on their savings. As mentioned above, this rate would necessarily be equivalent to approximately 12% p.a. under the present circumstances.

C. Interest Rates and Banco Agrícola

At BAGRICOLA this must be accomplished, at the outset, through payment to the saver of the maximum allowable interest rate under the law (6% for savings and 10% for time deposits) plus the payment, through promotional incentives such as gifts, lotteries, prizes, etc., of such a magnitude as to approach a positive real rate of return on savings. Since a minimum desirable rate of return approximates 12%, then the additional benefits paid to the rural saver should be sufficient to make up the difference between the interest rate paid and 12% p.a.

Example:

Maximum interest payable on time deposits	10%
Additional payment through gifts, etc.	2%
Effective rate of interest received	12%

The Marginal Cost of Funds

In the case of the BAGRICOLA the reserve requirement will, in all likelihood, be set at 10%. This will bring the overall cost of funds of BAGRICOLA to 13.33%.

$$\text{Marginal Cost} = \frac{\text{Effective rate of interest paid}}{\text{1-reserve requirement}} = \frac{12\%}{.9} = 13.33$$

In the event that the Central Bank will agree to pay interest on the reserve requirement, the overall cost to BAGRICOLA will be slightly lower at:

$$\text{Marginal Cost} = \left(\frac{\text{Effective rate of interest paid}}{\text{1-reserve requirement}}\right) - (\text{reserve req. x i rate}) = 13\% \text{ (approx.)}$$

The Lending Rate

Given the derivation of BAGRICOLA's marginal cost of funds from the savings mobilized, it can be deduced that in order to insure long term profitability of the program, the lending rates must be sufficiently above the marginal cost of funds so as to cover overhead expenses and reserve for bad debts associated with the funds mobilized and re-lent. This additional margin is difficult to determine. However, if we refer to Appendix I (Financial Performance of BAGRICOLA) we can observe that historically total overhead expense has been approximately 4 1/2% as compared to total assets of the bank.

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On an incremental basis it appears to be safe to assume that a margin of approximately one third to one half of the overall margin should be sufficient to cover the incremental costs of mobilizing and re-lending savings. Therefore it can be assumed that a 2% spread over the marginal cost of funds should be minimum for the bank to avoid losses. However, the project provides for investigations which will indicate the level at which lending rates must be set for BAGRICOLA to become a profitable institution.

Marginal cost of funds	13%
Lending spread	2%
BAGRICOLA Lending Rate	15%

By law, BAGRICOLA is permitted to charge up to 12% p.a. on loans. It is also permitted to charge commissions for loan administration of 2% and it currently charges a 1% commission for loan processing. In addition, the law would permit BAGRICOLA to charge one or two additional points in commissions if required to offset increases in financial costs. As a result, it appears that it is feasible for BAGRICOLA to make the program functional in spite of the artificial interest rate distortions provided by current monetary policy.

Summary of Break-even Dynamics

BAGRICOLA loan interest received	12%	
Commissions charged	3%	
		15%
Interest paid to rural savers	10%	
Additional payments, gifts, promotions, etc.	2%	
Cost of reserve requirement	1%	
Marginal cost of funds	13%	
Overhead allocation	2%	
Total Cost		15%

Once the program has been implemented, the research activity should be designed to provide evidence to demonstrate to the monetary authorities that:

i) It is feasible to permit payment of a positive real rate of interest to depositors;

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ii) that it is possible to lend to rural farmers at market rates of interest; and finally that

iii) allowing the market to set interest rates through the interaction of the forces of supply and demand will improve efficiency of the money markets and provide for far reaching macro economic benefits to the nation as a whole as well as benefits to rural savers and borrowers.

INCREMENTAL TWO YEAR PROJECTIONS

BAGRICOLA PILOT PROGRAM

(RD$ 000'S)

	7/1/83 - 6/30/84			7/1/84 - 6/30/85		
	BALANCE SHEET	RATE	PROFIT & LOSS	BALANCE SHEET	RATE	PROFIT & LOSS
Cash (Reserve Requirement)	150	-	-	500	-	-
Loans/Interest	1350	12%	162	4500	12%	540
/Admin. Commission		2%	27	-	2%	90
/Process. Commission		1%	13.5	-	1%	45
Total Loans/Gross Revenue from Funds	1350	15%	202.5	4500	15%	675
Savings Deposits/Interest	1000	6%	60	3000	6%	180
Time Deposits/Interest	500	10%	50	2000	10%	200
/Other Payments, Prizes, etc	-	-	70	-	-	220
Total Savings Mobilized/ /Total Funds Expense	1500	12%	180	5000	12%	600
Net Revenue from Funds	-	-	22.5	-	-	75
Incremental Staff Expense	-	-	20	-	-	27
Amortiz. of Cap. Expenditures	-	-	5	-	-	5
Incremental Stationary	-	-	1	-	-	1
Incremental Overhead	-	-	4	-	-	6
Miscellaneous (10%)	-	-	3	-	-	4
Total Incremental Exp.	-	-	(33)	-	-	(43)
USAID GRANT (Commodity procurement)	25*	-	-	-	-	-
Local Currency (Demonstration/ operating expenses)	-	-	30	-	-	30
Contribution to inc loan loss reserve at 1.4% of loans (Net Profit)			19.5			62

* See breakdown overleaf

(Note: Annual financial statements are presented in a format such that profit and loss items are presented opposite the balance sheet items that generate revenue or expense. The center column (RATE) shows the percentage relationship between the P&L item and the balance sheet item.)

PROJECT CONTRIBUTION TO START UP EXPENSES

BAGRICOLA PILOT PROJECT

	Local Currency	
a) Demonstration		RD$10,000.00
Branch remodeling	RD$ 4,000.00	
Initial Training Expenses	RD$ 3,000.00	
Forms/Printing	RD$ 1,000.00	
Miscellaneous/other	RD$ 2,000.00	
b) Operating expenses (1st year)		RD$20,000.00
TOTAL		RD$30,000.00

	Foreign Currency (USAID GRANT)
Vehicle	$18,000.00
Equipment	7,000.00
TOTAL	25,000.00

The foreign currency expenses can be amortized over a 5 year period at $5,000 per year. Amortization expense to be included in incremental expense analysis (see two year projections).

II. THE BANCO AGRICOLA

A. Historical Background. BAGRICOLA was formed under law No. 908 on June 1, 1945. The original name of the institution was Banco Agrícola e Hipotecario. As name implies, the development activities of the bank originally included supporting the growth of the housing industry. This function has been taken over during the last ten years by the private sector mortgage banks and the savings and loan institutions. BAGRICOLA's mortgage portfolio has been reduced to insignificant levels at this time.

The original capital of the bank was RD$2,000,000 of which $500,000 was initially paid in. Subsequent growth over the years has increased paid in capital as of December 31, 1982 to RD$50,000,000. Other government contributions to capital have increased total capital and reserves to $143,760,988. During the bank's 38 year history, the emphasis has been almost exclusively in providing agricultural credit to the small rural farmer. Total assets have increased to RD$318,038,555. Because of the development nature of the bank, BAGRICOLA has had chronic loan administration and collection problems throughout its history. Unfortunately, there is a generally fatalistic feeling among private and public sector institutions that a poor credit portfolio and high loan losses are inevitable attributes of the Bank.

BAGRICOLA has grown to 31 branches and 53 satelite offices located primarily in the rural areas of the country. Over 1600 employees serve the bank throughout this nationwide network.

B. Organization and Staffing. (See Apendix II - Table of Organization)

The bank's operations are regionally divided into eight geographic areas. In addition, staff support is provided from the main office in Santo Domingo. Because of its development role in the economy, the allocation of credit is subject to a complex planning process which is coordinated in Santo Domingo by the Planning Office (Oficina de Programación). A major loan recovery effort is now underway and is being coordinated by a Suspense department (Departamento de Recuperación). The organizational structure appears to be well designed given current bank operations.

C) Rationale for using BAGRICOLA in the AID Project

Banco Agrícola is potentially an ideal candidate for participation in a rural savings mobilization program. The extensive network of branches and satelite offices throughout the country provide an ideal vehicle for penetrating the rural savings market. Not only are these branches fully staffed and prepared to mobilize savings with a relatively small incremental cost outlay, but the agricultural focus of the bank insures that BAGRICOLA will concentrate on the target market of the rural farmer.

At this moment BAGRICOLA's management is committed to go ahead with the implementation of a rural savings mobilization pilot program as a means of preparing for a nationwide savings mobilization campaign. This campaign is aimed at alleviating a growing liquidity problem at the Bank which is the result of the reluctance on the part of the Central Government to continue to provide budgetary allocations of funds until such a time as credit portfolio management is substantially improved. BAGRICOLA's degree of commitment to this project is such that one of AID's major challenges during project implementation will be to find arguments and provide sufficient incentives to modify, influence and adapt the BAGRICOLA program to one which will accomplish the micro and macro-economic objectives of the AID rural savings mobilization project.

A major constraint in working with BAGRICOLA on this project is the bureaucratic nature of the institution. Due to its size, and its governmental nature as a development bank, it will not be easy to influence major policy changes. Additionally, there is a pervasive feeling among government officials both within and outside of BAGRICOLA, that it is an appropriate role for the Bank to provide subsidized credit to sub-standard borrowers. It will be difficult to sell the idea that a more appropriate role for the Bank, as a development institution, is to provide credit support, at market rates, to qualified borrowers who have the potential to be economically and efficiently productive.

D) Financial Analysis of BAGRICOLA

A review of the past three years financial performance of the Banco Agrícola presents a dismal picture (refer to Appendix I - Financial Performance of BAGRICOLA).

If one applies commonly used criteria for financial analysis of a private bank BAGRICOLA's financial health can be classified as poor.

Liquidity: Normal measures of liquidity such as loan/deposit ratios are irrelevant since BAGRICOLA does not capture deposits at this time. However, inasmuch as the Central Government is no longer funding the Bank's loan growth needs and since new loan demand exceeds loan collections substantially, it can be concluded that liquidity is poor.

Asset Quality: BAGRICOLA's financial statement as of 12/31/82 shows a breakdown of its credit portfolio as follows.

(Amounts in RD$000,000's)

Current Loans (not yet matured)		$186.1	74%
Loans Past due more than 20 days	$25.3 M		
Loans Past due more than 1 year	37.8 M		
Loans in legal action		12.7 M	
Total Problem Loans		$ 65.8	26%
TOTAL LOANS		$251.9	100%

In addition, Appendix III (Portfolio Analysis) shows that out of the portfolio considered current there is a substantial number of loans where payments are seriously in default and which, in all probability, will end up, after maturity of the loans, as part of the problem loan portfolio. If the portfolio is adjusted to reflect these loans, the result is the following:

Current Loans	$171.7	68%
Problem Loans	$ 80.2	32%
	$251.9	100%

Finally, there is a substantial item in the bank's balance sheet under accounts receivable of $68.7M which is the result of transfering many small unrecoverable loans under the Agrarian Reform Program and an IDB loan program, out of the loan portfolio. In classifying these unrecoverable loans as accounts receivable BAGRICOLA is awaiting eventual reimbursement from the Central Government for these losses. Adjustment of the credit portfolio for this item yields the following breakdown:

Total Portfolio	$251.9	
Plus: Accounts Receivable	68.7	
	$320.6	100%
Problem Loans	$ 80.2	
Plus: Accounts Receivable	68.7	
	$148.9	46.4%
Current Portfolio		53.6%

The conclusion is that asset quality by any measure is poor. The proportion of the portfolio which can be classified as problem loans is extremely high. It is not possible, given the scope of this study, to estimate what adjustment should be made to loan loss reserves, but it should be substantial. Whatever adjustments are made would have to be charged to bank capital which would greatly affect solvency of the Bank.

Profitability. Profitability is marginal at best. Over the last three years profitability has fluctuated between 0.11% and 0.36% of total assets. A typical figure for a healthy, private bank, would be approximately 1%.

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Conclusions:

Financially, BAGRICOLA presents an unhealthy situation. However, it should be kept in mind that the Bank is wholly owned by the Central Government and therefore bankruptcy, in the long run, is unlikely. Whether or not the unproductive account receivable is reimbursed to BAGRICOLA by the Central Government is, to a great extent, a political decision.

The biggest concern to be dealt with as a result of the above analysis is that of the protection of the depositors savings. Given the Bank's poor track record in managing its portfolio it appears unlikely that there will be a sudden improvement in credit administration. As a result, strong reliance will have to be placed on the implicit government backing that BAGRICOLA will receive due to its nature as a wholly owned government bank.

The bank has recognized the seriousness of its delinquent portfolio and the current BAGRICOLA administration has initiated an immediate action program to collect on past due debts. As part of this program the adoption of commercial banking criteria will be implemented and a review of the Bank's overall interest rate policy is underway.

III. SPECIFIC PROJECT IMPLEMENTATION CONSIDERATIONS

Top management at BAGRICOLA is extremely enthusiastic with the concept of mobilizing rural savings and they have selected the following four branches to participate in the pilot project.

Monte Plata	(w/o banking competitors)
San José de las Matas	(w/o banking competitors - with Co-op competiton)
San José de Ocoa	(subject to competition from Banco Popular and Nacional de Ahorros y Préstamos)
Rio San Juan	(w/o banking competitors)

It is expected that the pilot project will be underway by July 1, 1983. In order to manage the project at Banco Agrícola a coordinating office has been established under the responsibility of Ana María Roque-Baez, a BAGRICOLA officer whose banking carreer includes several years of branch service with Chase Manhattan Bank's Dominican Republic network. Additionally, Lic. Juan Antonio Pardilla, who has had experience with legal and administrative aspects of banking services has also been assigned to the implementation team.

This team reports to the Administrator of the bank (chief executive), but it is expected that activities will be coordinated with Lic. Ramón Aquino who is in charge of Planning (Oficina de Programación).

The personnel department is currently developing a training program which will prepare key branch personnel for the savings mobilization campaign. It is expected that 6 to 8 individuals in each branch, to include tellers, auditors and branch managers will need training and orientation in operating procedures and in savings mobilization techniques (marketing).

An operations manual is being written and passbooks have been designed to be ready for use by the target date of July 1, 1983. Lic. Rafael Vargas, the public relations director for BAGRICOLA will develop a publicity campaign to be implemented once the operational snags have been eliminated from the system. Lotteries, prizes, coupon programs, etc. will be utilized as incentives where deemed appropriate. It will be important for the project's long term consultant to coordinate closely his/her efforts with the staff at BAGRICOLA.

At the present time the managers of BAGRICOLA operate on a goals program with their supervisors. Some of the important areas where goals are set for the managers are the following:

(1) Loan recovery

(2) No. of loans processed in relation to the annual branch budget

(3) Adherence to "the loan program" which is prepared at the branch each year and is adjusted and approved by management and the "Oficina de Programación".

(4) The expense budget

It is anticipated that incentives will be designed around the savings program also. Savings goals should be set for the managers in terms of both numbers of accounts established and RD$ amounts mobilized.

Finally, a control system should be implemented to monitor the cost of the funds mobilized so that money generated from the savings mobilization effort is lent out at market rates of interest such that a positive spread over the marginal cost of funds is achieved.

IV. SUMMARY AND CONCLUSIONS

It is apparent that it is quite feasible to mobilize savings in the rural areas of the Dominican Republic through branches of BAGRICOLA while maintaining a minimum level of profitability. In spite of the portfolio problems at the bank the governmental nature of the institution will provide sufficient security to the saver to induce effective savings mobilization on an on-going basis. The relationship of the AID project and the overall savings mobilization goals of BAGRICOLA must be continually coordinated and kept clearly in focus during project implementation so that project objectives in the area of interest rate policy and long range financial viability of the program are not forgotten.

APPENDIX I

FINANCIAL PERFORMANCE OF BAGRICOLA

(RD$ 000'S)

(Note: Annual financial statements are presented in a format such that profit and loss items are presented opposite the balance sheet items that generate revenue or expense. The center column (RATE) shows the percentage relationship between the P&L item and the balance sheet item.)

	1980			1981			1982		
	BALANCE SHEET	RATE	PROFIT & LOSS	BALANCE SHEET	RATE	PROFIT & LOSS	BALANCE SHEET	RATE	PROFIT & LOSS
Cash: Own Funds	2,365	0.85	20	1,932	-	2	4,027	-	-
Funds in Trust	2,815	-	-	2,777	-	-	5,256	-	-
Total Loans	225,653	-	-	248,365	-	-	251,915	-	-
Less: Prov. for Bad Debts	(17,055)	-	-	(16,825)	-	-	(17,696)	-	-
Net Loans	208,598	6.75	14,087	231,540	6.85	15,856	234,219	7.69	18,001
Due from Government	16,046	-	-	58,673	-	-	68,752	-	-
Other A/C Receivable	2,577	-	-	1,749	-	-	1,532	0.07	1
Inventory	4	-	-	4	-	-	4	-	-
Other Real Estate Owned	824	-	-	826	-	-	908	-	-
Investments	-	-	25	-	-	12	-	-	13
Property & Equipment	2,718	N/A	-	2,750	N/A	-	2,751	N/A	-
Other Assets	638	N/A	1661	1,762	N/A	538	590	N/A	475
TOTAL ASSETS	236,585	6.68	15793	302,023	5.43	16,408	318,039	5.81	18,489
Deposits	522	-	-	656	-	-	140	-	-
A/C Payable	3,404	-	-	4,381	-	-	4,323	-	-
Short Term Debt	87,235	-	-	106,487	-	-	108,918	-	-
Plus: Funds Managed in Trust	41,606	-	-	45,646	-	-	49,426	-	-
Total Short Term Funding	128,841	2.32	2992	152,133	2.41	3,663	158,344	2.38	3,766
Long Term Debt	7,603	2.56	195	6,726	2.60	175	5,850	2.67	156
Deferred Income	3,735	-	-	4,577	-	-	5,364	-	-
TOTAL LIABILITIES	144,607	-	-	168,879	-	-	174,278	-	-
Paid in Capital	50,000	-	-	50,000	-	-	50,000	-	-
Paid in Surplus	27,080	-	-	68,184	-	-	77,657	-	-
Reserves	4,060	-	-	3,869	-	-	4,951	-	-
Special Funds	10,838	-	-	11,091	-	-	11,154	-	-
Total Capital & Reserves	91,978	-	-	133,144	-	-	143,761	-	-
Total Liabilities & Capital	236,585	1.35	3,187	302,023	1.17	3,538	318,039	1.23	3,922
Other Non-Funds Income & (Expenses) Net	-	-	(89)	-	-	26	-	-	(13)
(Overhead)	-	-	(12,259)	-	-	(12,483)	-	-	(13,410)
Total Non Funds Exp.	236,585	(5.22)	12,348	302,023	(4.14)	12,509	318,039	(4.22)	13,423
Net Profit	236,585	0.11	258	302,023	0.02	62	318,039	0.36	1,144

FINANCIAL AND INSTITUTIONAL ANALYSIS OF FEDOCOOP AND CREDIT UNIONS

A. FEDOCOOP

A conventional financial analysis of FEDOCOOP is not possible due to inadequate information of a reliable nature. For example a loss of RD$68,791.01 was reported for the year ended 31 Dec. 1982. However, the audit report cast doubt on the inclusion of RD$18,753.30 from the earnings of the Finca La Cabuya saying they are not supported by accounting entries. The previous manager of the "Finca" has been fired and the implication is that no profit was made.

All interest income reported from 1976 through 1981 is on an accrual basis. This would be meaningful only if the Federation did not continue to report accrued income on delinquent loans or if they made corresponding charges to delinquent loan reserves. This was not and is not being done. Reported earnings are meaningless in light of the fact that almost 60% of the loan portfolio is delinquent meaning that the income accrued never has been fully received nor is it ever likely to be due to the unrecoverable nature of the delinquency.

Not only will the income not be earned but principal losses will amount to RD$2,354,858 if none of the delinquent loans are collected. If half the presently delinquent loans are collected losses will still exceed RD$1,000,000. The management of FEDOCOOP did not demonstrate great confidence as to the ability of FEDOCOOP to collect on these loans.

FEDOCOOP in turn is delinquent on all or almost all of its borrowings of approximately RD$4,000,000. Fortunately only about RD$400,000 of this amount is in foreign currency.

FEDOCOOP is presently discussing with its principal lender, COLAC, the restructuring of its debt and is looking for extension of repayment for an additional ten years at reduced interest rates. Even though sale of the FEDOCOOP building was mentioned as a possible source of repayment for RD$700,000 of the debt it is not known whether COLAC would insist on such a sale or whether members would approve of the sale in the absence of actual foreclosure. FEDOCOOP does not view its own existing loan Portfolio as the major source of funds for repayment of borrowings from COLAC. Rather, it sees a need for new financing which would be invested in specific agricultural or agro-industrial projects which would provide the source of income to repay both new and old borrowings. At any rate, financing of such new projects is not assured and even if all projects were to be financed, profits are not assured, even though detailed feasability studies indicate that the proposed activities may be profitable.

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In spite of all the evidence that FEDOCOOP is insolvent and unable to meet its debts to COLAC, it should be clear that it is not likely that COLAC will force FEDOCOOP into bankruptcy. It is not even certain that COLAC will refuse to provide additional financing.

In all probability FEDOCOOP will be unable to provide significant counterpart to this project and should not be encouraged to do so since promised funding is very apt not to be available when required. Rather, FEDOCOOP should be viewed as an institution which can provide needed insurance services and eventual difusion of the results of this project to its affiliated members. The project will strengthen FEDOCOOP to the extent that it is encouraged to charge real rates of interest to its borrowers. Technical assistance should be provided to FEDOCOOP especially in the areas of management, decision making and in the area of delinquency control and collection methods.

B. Selected Cooperatives

Four cooperatives were selected in analysis. Analysis is based on unaudited financial statements for the last two years, in three cases. Three of the four cooperatives selected have been in existence from five to seven years while the fourth has been in existence considerably longer.

1. Sabaneta Novillo of Santiago Rodriguez.

As the table on page 10 of this annex indicates there was no significant growth in shares, deposits or loans from June 1981 to June 1982. Loans increased by 12% and borrowing from FEDOCOOP rose from RD$33,097 to RD$91,808 an increase of 177%. This borrowing was channeled into additional loans (RD$18,965) and a building (RD$$24,122).

2. Esfuerzo De Los Pobres, Villa Riva

Loans increased 58% in 1981 and 32% in 1982. This growth in loans was made possible by a corresponding growth in shares of 67% in 1981 and 23% in 1982.

Delinquent loans as of February 1982 totaled RD$ 60,801. Of this amount RD$51,968 is guaranteed by member shares, so the risk of actual loss is minor.

Borrowing from FEDOCOOP has increased greatly both in constant and relative terms rising from RD$18,804 in 1980 to RD$201,820 in 1982, almost an 11 fold increase. These borrowings have been primarily utilized to finance marketing advances and increases in fixed assets. Advances rose from RD$29,075 in 1981 to RD$152,849 in 1982, an increase of 425%. Fixed assets rose from RD$13,376 to RD$74,287 during the same period.

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Gross income from loans rose 163% from RD$20,305 in 1980 to RD$53,382 in 1982. Net income as reported has no meaning since inventories of crops are not included to permit calculation of the true cost of goods sold. All sales are actual sales while stated cost of goods represents the cost of crops purchased, not the true cost of goods sold. This is a serious deficiency in accounting practices and a first priority would be to correct this situation.

Expenses of credit operations have increased 113% from RD$22,676 to RD$48,241 in 1982. Salaries account for RD$13,086 of the total increase of RD$25,565.

Interest expenses for marketing operations have risen from RD$1,316 in 1980 to RD$17,093 in 1981.

3. San José, Inc., of San José de las Matas.

This cooperative was not able to provide financial information for more than the year ended 31 January 1982 due to the fact that our visit was made during the night after office hours. In spite of the impossibility of comparing this information to that of other years, one can conclude that this cooperative is among the strongest, having mobilized RD$203,231 in savings deposits, RD$129,761 in fixed deposits and RD$468,351 in shares. This cooperative has limited non-credit union operations consisting of the sale of white goods to members. It paid a 4% dividend on shares and pays up to 8% on fixed deposits.

The manager stated that delinquency was around 5% of the loan portfolio but no delinquency report was available. It should be noted that typically estimates of delinquency levels not based on actual calculations most often understate the true delinquency.

This credit union has no external debt. The most recent information indicates that 424 members out of 1600 live in New York City. They have shares of RD$254,418. 167 of these members have RD$209,358 in deposits and 97 have loans of RD$322,829. The significant involvement of New York residents in this cooperative provides an opportunity to research such inflows. It will however make measuring of the impact of savings campaigns more difficult since promotional efforts will not be directed towards these members.

4. Amor y Paz of Las Matas, Cotuí.

This cooperative is not affiliated but FEDOCOOP has indicated its willingness to provide services to this cooperative. The cooperative's direct involvement with agriculture may overshadow its mobilization and lending activities.

The cooperative provides land preparation services as well as marketing services. Its accounts payable are RD$180,819 and its loans to members RD$97,903 in 1982 are up 53% from 1981.

Shares are only RD$30,196 which represents a 98% increase over the last year. In addition loans payable are 669% of shares, making this cooperative extremely highly leveraged.

For the year ended January 31, 1982 the cooperatives earned RD$39,094 on sales of RD$1,596,913. In the most current year earnings apparently rose to RD$98,764. This estimate of earning is based on the accountant's trial balance which was the only record available.

This cooperative is charging only 11% to 12% on loans and management states that its profit is earned through marketing of the crops so financed. The project would seek to modify this concept prior to proceeding with savings mobilization.

Liquid assets total RD$412,674 and are 2.01 times accounts payable. In addition, borrowers funds are backed by fixed assets of RD$199,100.

This cooperative's almost exclusive involvement with small commercial farmers makes it an interesting participant in the savings mobilization program, in that lending operations will be mainly to farmers.

(See Annex I for the complete breakdown of the available financial information on the four selected cooperatives.)

CUMULATIVE COOPERATIVE FINANCIAL BUDGET AND CASH FLOW
SOURCE AND UTILIZATION OF FUNDS

	3rd mo	6th mo	12th mo	18th mo	24th mo
A) Source					
1. Savings	0	70,000	250,000	450,000	800,000
2. Fixed Deposits	0	75,000	200,000	350,000	350,000
3. AID Cont. to Reserv	0	7,250	22,500	40,000	50,000
4. Income on Net Loans 1/	0	6,509	60,598	179,550	361,344
5. Income on Reserves 1/	0	326	3,038	9,000	18,112
Total		159,085	536,136	1,028,550	1,579,456
B) Use					
1. Loans	0	130,500	405,000	720,000	1,035,000
a. Less looses on loans 2/	0	(6,525)	(20,250)	(36,000)	(51,750)
b. Net Loans	0	123,975	384,750	684,000	983,250
2. Interest Expense 3/	0	2,738	24,750	73,125	139,125
3. Admin. Expense 4/	0	1,450	13,500	40,000	80,500
4. Liq. Reserve	0	21,750	67,500	120,000	172,500
5. Promotion Expense 5/	0	4,350	13,500	24,000	34,500
Total 6/		160,788	524,250	977,125	1,461,625

1/ Estimate with a 3-month lag, loans earning 21% and liquid reserves 6%

2/ 5% on gross loans

3/ Estimated with a 3-month lag on savings (earning 6%) and fixed deposits (earning 9%)

4/ 4% on savings and fixed deposits

5/ 3% of total savings

6/ Total does not include (1.a) and (1.b) which are provided as additional information.

NOTE: Difference betwen source and use is provided by or uses in other cooperative activities.

C. Institutional analysis

FEDOCOOP was selected as a participant in the program basically due to its present role vis á vis its member cooperatives. While FEDOCOOP has become progressively weaker both financially and in its ability to provide services to its members, it still provides specific services such as bonding insurance, and life insurance. In addition the Federation provides both general consulting services and accounting advisors. The provision of these services depends on the receipt of Peace Corp assistance. Of the five general consultants four are Peace Corp advisors.

The Federation suffers from a severe liquidity constraint as indicated in the financial analysis. This illiquid situation is the result of high loan delinquency (59.82%) and relatively low interest charges so that even the loan portfolio does not produce sufficient income to cover costs and generate surplus funds for the provision of services. The Federation has sought to improve its situation through more vigorous loan collection efforts, including legal foreclosure and reduction of expenses. For example, per diem allowances have been reduced by 50% and non-profitable services, such as a nationwide collection department and an auditing department, have been eliminated. The use of local lawyers is more efficient both in terms of results and cost. While a team of auditors specialized in credit union accounting provides certain advantages over local auditors, it is difficult for this type of service to recover costs. Audits are not mandatory and thus credit unions can choose to avoid any cost by not being audited, or by requesting an audit from IDECOOP, which may be unable to provide one, or by opting for the least costly audit available locally, regardless of the quality.

FEDOCOOP is no longer viewed by many of its members as a source of loans. Its present debt structure could impede the quantity of additional new debt by international lenders. However the receipt of grants for services or on-lending remains a possible source of funds. FEDOCOOP is seeking additional loans from COLAC of around US$2,000,000, but these funds are earmarked for agricultural projects of the federation which will not necessarily involve sub-lending to member cooperatives for relending to individual members.

In spite of these constraints FEDOCOOP has been choosen to participate as it is perceived by its members to be the legitimate second level cooperative institution of which they are participating members.

Its capability to provide education to its members was recently enhanced by a grant of $48,000 from Canada.

In February a new financial manager with experience as an accounting supervisor, financial analyst and general comptroller in various states was named. This manager, Michael K. Ryan holds a master's degree and has worked with the federation from 1974 - 1978 as a planner and financial analyst.

As mentioned previously, FEDOCOOP provides comprehensive bonding insurance which is of considerable importance to the project since it contemplates signifcant mobilization of funds. In addition it provides life insurance on loans up to RD$10,000 and on savings up to RD$2,000. The first will reduce delinquency due to the death of member borrowers while the second will provide an additional incentive for savings.

The bigest advantage of working with FEDOCOOP is that it provides an effective means of dissemination of the lessons to be learned through this project both in regards to savings promotion and in the need to use more realistic interest rates on savings and loans.

1. Interest Rate Policies

The credit unions working capital is derived from three sources: shares, savings accounts, and fixed time deposits.

The law limits earnings on shares to a maximum of 5%, which can be paid only out of earnings from which all provisions for reserves have been deducted. Of the four cooperatives under consideration as potential participants only one has paid a dividend of 4% on shares, the other credit unions had losses or insufficient earnings to permit any payment.

The credit unions in general do not pay interest on savings accounts. The motive for having a savings account is only that of being able to assure the availability of funds saved on a future occasion when they are needed. Savings also do not count toward establishing borrowing ratios.

As a result, total savings are not significant in most of the cooperatives either in absolute terms or relative to shares, except in San José, Inc.

Fixed time deposits are, in general, a new service. Interest rates run from 6% for three months to 9% for one year or longer.

2. Interest Rate Charges

Rates on loans secured by one's own shares are 1% a month on the declining balance.

Rates on loans exceeding one's shares, even when guaranteed by the shares of other members, are 1 1/2% on the declining balance or 18% per year. These loans are assumed to be made out of funds originating outside of the credit union and thus represent more costly resources.

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Special loans representing salary advances can bear charges ranging from 1 1/2% to 6% per month. In the latter case 2% is redistributed to the borrower in the form of a deposit to a savings account.

Since loans secured by a member's own shares are the most significant type of loans, the cooperatives are grossing only slightly over one percent per month on loans.

Earnings either do not cover cost or exceed operating cost only insignificantly. Not only does this result in minimal or no dividends on shares but it means the cooperatives do not build up meaningful reserves which are by law calculated on net earnings.

Rates charged are not adequate to cover even moderate losses due to bad loans and the actual losses on small loans by cooperatives in the D.R. have not been moderate.

Inflation even at present estimated rates of between eight to ten percent per year obviously reduce real earnings or increase reported losses.

3. <u>History of Financial Operations and Types of Financial Services Offered.</u>

The cooperatives chosen have been operating for less than seven years, except for one which has beeen operating considerably longer.

Members must purchase shares which by law can receive a maximum dividend of 5% per year. Dividends can only be paid out of earnings; if there are no earnings there can be no dividends and, in fact, only San José, Inc., paid a 4% dividend.

Savings accounts are offered but it is not custom to provide interest on these accounts. It is considered a service to allow members a place to save other than in their own homes.

Fixed deposits have begun to be offered at all the cooperatives except for Amor y Paz but were insignificant at all except San José, Inc. Rates at San José ranged from 6 to 8 percent depending on the size of the deposit.

Loans of three types are offered by all the cooperatives. Loans secured by ones own shares are made at 12%. The interest is calculated on the outstanding loan balances.

Loans not secured by one's own shares are considered loans made from other resources and bear an 18% rate.

Advances against salary checks are made at rates of up to six percent per month of which a portion is returned to the members savings account. It is not yet clearly understood why the cooperatives are so willing to charge so much for these short-term very secure loans. It is believed that since loan sharks charge a minimum of 20% per month for this same service even six percent appears to be a reasonable charge.

Loans are often related to the amount of one's shares. Amor y Paz lent only 75% of a members' shares for non-crop loans, while San José lent ten times one's shares. The norm was 100% of one's shares. Amounts over 100% were permitted but must be secured by shares of other members. The 10 to 1 ratio in San José, Inc. applied to loans secured by mortgages. Except for San José, Inc. loans were generally small, ranging for less than $100 to under $2,000.

Amor y Paz, in addition to loans on shares, serves to channel BAGRICOLA funds to farmers at either the same rate charged by the bank or one percent higher. The manager and president disagreed as to which was the case while we were present.

4. Staffing

The organization of FEDOCOOP and its staffing levels were not studied in detail. Discussions were held with the Manager, Assistant Manager, the Finance Manager and the Loan Analyst. To reduce expenses the collection service for cooperatives was eliminated. Local collection efforts were believed to be more economical and efficient. The same was true of the audit service.

Staff has been reduced to cut expenditures and or permit paying more adequate salaries to remaining staff.

The Peace Corps is presently providing various volunteers to work with FEDOCOOP as advisors to credit unions or as accounting technicians.

The project will provide funding for the short-term advisor(s) attached to FEDOCOOP. The project does not depend on more than the existing minimal level of services that FEDOCOOP can provide.

The four participating credit unions all have full-time manager-bookkeepers or access to accounting services and sufficient additional staff to meet the needs of initial savings promotion efforts. Esfuerzo de Los Pobres has 7 treasurers who receive payment for expenses but not salaries. They are responsible for collections from members on shares and loans.

Mobilization of savings will require more attention to financial analysis and controls. Collection efforts must be intensified as funds are on lent. Incremental administrative costs have been estimated at four percent. This is a high percentage and should permit contracting of sufficient competent personnel and the purchase of all equipment required.

COMPARATIVE INFORMATION

	Esfuerzo de Los Pobres			Amor y Paz		San Jose Inc.	Sabaneta Novillo	
	80	81	82	81	82	31 Jun 82	30 Jun 81	30 Jun 82
Loans to Members	265,783	466,467	647,098	64,115	97,903	730,665	151,690	170,655
Delinquent Loans	?	?	60,801	?	?	? (1)	?	37,200*
Share Capital	241,925	403,885	500,247	15,271	30,195	468,350	132,755	130,479
Savings Accounts	6,417	3,543	34,226	NA	NA	203,230	12,147	13,642
Fixed Time Deposits	-	600	950	NA	NA	129,761	506	716
Loans Payable	18,804	95,260	201,820	171,674	232,471	-	33,097	91,808
Members	?	?	?	?	?	1,600	?	1,343 (1)
Dividend on Shares	5% est.	-0-	-0-	-0-	-0-	4%	-0-	-0-
Rate on Savings	-0-	-0-	-0-	NA	NA	-0-	-0-	-0-
Rates on Fixed Deposits	NA	?	6%-9%	NA	NA	8%	6%	6%
Total Reserves	508	8,332	9,429	-0-	10,973 (1)	13,697	5,111	4,440
Earnings	23,306	3,305	(20,001)	23,823	137,857*	21,481	136	(3,440)
Accounts Receivable for Services	-	-	-	176,889	180,819	-	6,383	8,081
Accounts Payable	-	-	-	250,230	205,173	7,475	-	-
Inventories	?	?	?	55,005	115,842	6,579	-	-
Fixed Assets	15,430	43,394	74,288	154,332	195,353	15,422	7,495	31,143

(1) Funded reserves shown as assets

* Based on trial balance

(1) Mgr stated they did not exceed 5% of loans

* As of Sept 82

(1) As of Feb 83