

CLASSIFICATION
PROJECT EVALUATION SUMMARY (PES) - PART I

Report Symbol U 447

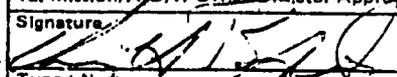
1. PROJECT TITLE Rural Savings Mobilization	2. PROJECT NUMBER 517-0179	3. MISSION/AID/W OFFICE USAID/DR
	4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY) <input checked="" type="checkbox"/> REGULAR EVALUATION <input type="checkbox"/> SPECIAL EVALUATION	

5. KEY PROJECT IMPLEMENTATION DATES			6. ESTIMATED PROJECT FUNDING \$000 A. Total \$ 1,842 B. U.S. \$ 950	7. PERIOD COVERED BY EVALUATION	
A. First PRO-AG or Equivalent FY 83	B. Final Obligation Expected FY 85	C. Final Input Delivery FY 86		From (month/yr.) August 83	To (month/yr.) Nov. 84

8. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
1. Complete RSMP and initiate follow-on activities in the Dominican Republic.	Project Officer RSMP	8/85
2. <u>Research</u> : Make available additional financial resources for completing and disseminating research studies.	Project Officer RSMP	8/85
3. <u>Savings Mobilization</u> : Encourage changes in operational procedures directed to institutionalize three major functions. (a) Banking, (b) Special Credit, and (c) Agrarian Reform and other transfer payments.	BAGRICOLA Lic. Ramon Aquino	8/86
4. Identify an institutional base for training and providing organizational support for the Credit Union local consultants.	Project Coordinator RSMP	8/86
5. Consider a comprehensive financial sector reform project.	USAID/DR	8/85
6. See additional comments, page 2.		

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS			10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT		
<input checked="" type="checkbox"/> Project Paper	<input checked="" type="checkbox"/> Implementation Plan e.g., CPI Network	<input type="checkbox"/> Other (Specify)	A. <input type="checkbox"/> Continue Project Without Change		
<input checked="" type="checkbox"/> Financial Plan	<input checked="" type="checkbox"/> PIO/T		B. <input checked="" type="checkbox"/> Change Project Design and/or		
<input checked="" type="checkbox"/> Logical Framework	<input type="checkbox"/> PIO/C	<input type="checkbox"/> Other (Specify)	<input type="checkbox"/> Change Implementation Plan		
<input checked="" type="checkbox"/> Project Agreement	<input type="checkbox"/> PIO/P		C. <input type="checkbox"/> Discontinue Project		

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles) Roberto J. Castro, ARD	12. Mission/AID/W Office Director Approval Signature:  Typed Name: Henry H. Bassford, DIR Date: OCT 29 1985
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AID 1330-15 (3-75)
Clearances:

M.H. Ford, ARD MHF; R. Ellert-Beck, Eval. Officer REB; C.G. Buck, DD CGB

The evaluation of the Rural Savings Mobilization project was initiated in October 1984 and finalized in February 1985. The evaluation team consisted of two members: Mr. Charles Blankstein, a former USAID/DR employee and Jerry Ladman, professor of Arizona State University. The USAID Mission reviewed and accepted the evaluation report in February 1985. Before endorsing the recommendations of the evaluators the mission requested Ohio State University's reaction to the evaluation report. The OSU team's report, attached as an annex, were presented to the USAID Mission in March 1985. OSU agreed in general with all the recommendations of the evaluators and requested a one-year extension to the project. The OSU report also updated relevant information on the project components through March 1985, and described several new developments of importance, such as the additional measures adopted to deal with several of the second-generation problems identified in the evaluation report.

The USAID project team reviewed both reports in April 1985, endorsing most of their recommendations with the exception of comprehensive financial and fiscal reforms which were outside the scope of this pilot effort. The amendment to the Project Paper, extending the project from August to December 1986 and increasing LOP funding by \$450,000, to a total of \$950,000, was approved and signed in August 1985. The amendment to the Grant Agreement was signed in the same month. Other actions recommended by the evaluators are currently being undertaken as indicated in the face sheet.

REPORT OF EVALUATION OF RURAL SAVINGS MOBILIZATION PROJECT (517-0179)

Presented to USAID/Dominican Republic by

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February 1985

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EXECUTIVE SUMMARY

The Rural Savings Mobilization Project (517-0179) (hereafter "RSMP") which is evaluated in this Report is one of a series of efforts by USAID/Dominican Republic over a number of years to use and to improve the performance of financial institutions as a vehicle for rural development. Although a relatively small project (projected overall costs of \$1,292,000 including \$500,000 AID and \$792,000 host country contribution), this is an ambitious project intellectually, politically, and developmentally. It has achieved a number of remarkable results in the few months since its authorization in July, 1984.

RSMP was conceived as a "pilot project" which sought "...to demonstrate the feasibility of mobilizing voluntary savings in the rural areas" and "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". The project has three components:

1. Savings mobilization in the Agricultural Bank of the Dominican Republic (hereafter "BAGRICOLA");
2. Savings mobilization in credit unions; and
3. Research and dissemination.

The evaluators draw the following overall conclusions:

A. With respect to project performance and results to date:

1. Project implementation is well underway with exceptionally optimistic prospects in the BAGRICOLA and Research components. Implementation of the Credit Union component reflects a less optimistic picture to date. In some respects, the most important results of RSMP may lie beyond the bounds of the original project concept with its largely "rural" orientation. RSMP has helped to generate a reexamination of financial policy concerns which extend to the nation's financial system as a whole.
2. Dominican commitment to the project and performance in its implementation are excellent. Especially noteworthy are the efforts of the Central Bank and BAGRICOLA. In addition to the institutional commitment of Dominican organizations, the project has achieved considerable success in attracting participation of individual Dominican professionals in research, policy dialogue, and operations in financial institutions.
3. The project has been exceptionally effective as an instrument of policy dialogue. Even if substantive results do not ultimately meet hopes and expectations, the process itself is an accomplishment in that it demonstrates how effective in-depth dialogue can be promoted on complex and controversial policy issues. The combination of public discussion, research by Dominican investigators, and operational innovation by Dominican institutions - all

supported and encouraged by flexible technical assistance and financing arrangements - is a powerful model for assistance. This model is particularly interesting in circumstances, such as exist in this case, where defects in the policy environment are considered to be crucial constraints to achieving significant national development objectives. All persons and institutions involved are to be complimented for the intellectual maturity of the process model and its implementation.

4. The scope and rapidity of development of the BAGRICOLA savings mobilization component has clearly outrun the modestly stated objectives of the project design which called for a "pilot" or "experimental" effort. While this performance is most encouraging, it raises questions about how well the implications, especially the internal institutional implications of the savings mobilization effort are understood. It also raises questions about the adequacy of resources available to deal with the institutional consequences of savings mobilization and related operations including management policy, training, physical facilities, information systems and the like.

5. The Credit Union component of the project presents several serious issues. The component got off to a slow start by comparison with the other components. Operational problems including the selection of participating credit unions, difficulties with FEDOCOOP, and the extent of the work required to prepare the credit unions to mobilize savings resulted in this component having less to show as of the time of field interviews than other components. Nonetheless, the work completed as of October, 1984 indicated that at least one of the credit unions involved had achieved an adequate level of financial competence to mobilize savings effectively and that a sound system for preparing credit unions for savings mobilization had been developed. Data provided to the evaluators since the field interviews indicate considerable progress since October, 1984 including the mobilization of \$RD 227,158 12/31/84 in all four credit unions.

While operational results appear to be promising, several serious questions remain open:

a. Has a replicable technical assistance model been developed for assistance to coops and credit unions willing to undertake savings mobilization? An accounting system has been developed and training has been provided to two Dominicans. But the evaluation took place too early to assess the effectiveness of technical assistance by Dominicans to credit unions.

b. Given the problems faced by FEDOCOOP, is there an institutional base available within which technical assistance for credit union savings mobilization can be positioned, BAGRICOLA for example?

c. Assuming that a technical assistance model replicable by Dominicans has been created and that the feasibility of savings mobilization in credit unions has been or shortly will be demonstrated and that a suitable institutional base for technical assistance can be found, do credit unions as such offer sufficient development benefits to justify continued Mission attention?

The credit union component presents a challenge to evaluation as well as management. While other components of RSMP appear to be well seated and have strong Dominican leadership, the Credit Union component gives the outward appearance of an relatively high cost, low-pay-off operation which lacks an institutional home and a demonstrated replication potential. On the other hand, this component started slowly, suffered seriously from the lack of a suitable institutional base, and nonetheless is producing interesting if necessarily modest results.

The credit union component both requires and deserves close Mission attention in the coming months. If the pilot credit union savings mobilization efforts perform well, the Mission may well have identified a significant and innovative initiative in cooperative development. If the results are not encouraging, it may be desirable to consider eliminating the cooperative component of the Project and focusing resources on activities with greater potential for success.

6. RSMP presents a series of challenging management issues. One such issue is whether RSMP has been "too successful" in BAGRICOLA. A strong case can be made for the proposition that savings mobilization is moving too fast in BAGRICOLA and that serious risks are being run by encouraging extensive deposit and lending before the institution is prepared and fully understands the implications of a "new business". Conversely, a strong case can be made that an opportunity for significant change now exists and should be exploited while support exists for important reforms. It appears that BAGRICOLA has made the decision to move ahead for better or worse. USAID can make a difference in determining the ultimate success or failure of this effort by assuring access to sound technical assistance and should do so.

7. Whether the Mission decides to press the opportunities for significant institutional and policy reforms which RSMP has opened or not, the genie is out of the bottle. Dominicans see the opportunities for domestic savings mobilization inherent in the project concept. BAGRICOLA management appears to have decided to run the risks of aggressive savings mobilization within an institution not previously oriented toward "banking" activity. Assuring adequate technical assistance resources to help the Dominicans deal with unfolding problems and opportunities appears to be not only highly desirable but necessary.

8. The relationship of RSMP to wider financial reform initiatives and program objectives of the Mission presents another question for close management consideration. RSMP, a project strongly oriented toward "rural" financial markets, has helped to open avenues of possible reform well beyond the strictly rural. But the "rural" objectives of RSMP remain significant in and of themselves. Ideally the Mission will see its way clear to moving forward with a comprehensive financial sector effort which includes both continuing efforts to improve the performance of rural financial markets and addresses wider financial sector reform opportunities.

B. With respect to the administration of the project:

1. Ohio State University performance in the project has been excellent overall. OSU has mobilized an impressive array of technical assistance resources both from its own staff and outside consultants. The technical assistance effort is perceived to be effective by participants in the project. The assistance provided appears to the evaluators to have been relevant, appropriate, and effective (although effectiveness of TA for the cooperative component cannot yet be judged). OSU appears to have sought outside consulting talent rather than using its internal staff to maximize its revenues from the project.
2. The OSU approach to providing TA primarily through short visits rather than through senior in-country staffing appears to be effective. Total costs of extensive short-term assistance to date appear to be lower than maintaining a senior professional in-country. The scope of professional services provided is far wider than any one professional in-country could offer. The extensive short-term TA format is expensive but on balance appears to be more effective for the type of project involved than a single senior advisor. With the exception of the Credit Union component, this project places a high priority on intellectual interchange and reliance on Dominican institutions to manage day-to-day implementation. The Dominicans apparently like and profit from short bursts of "high voltage" technical assistance. With respect to the credit union component, long-term in-country TA along current lines appears to be essential. In short, the evaluators recommend no change in the technical assistance delivery system of the project in its current form.
3. The evaluators closely examined OSU-Dominican institution links and the role and effectiveness of the key participants. There do not appear to be any problems requiring immediate managerial attention. A few minor issues surfaced but were promptly addressed, apparently effectively, by the individuals involved.
4. Support from the S&T/RAD Cooperative Agreement project "Rural Savings for Capital Mobilization" ("RSCM") and its predecessor Cooperative Agreement "Rural Financial Markets" was an essential factor in developing and implementing this Project. RSCM provided funding and acted as a vehicle through which USAID/DR channeled funds to OSU for project purposes. Further funding from RSCM is now precluded because of the relatively large contribution already made to the Dominican Republic effort.

As the cooperative agreement concept in relevant part is currently subject to criticism in AID/W and may be eliminated as a support mechanism, consideration should be given by AID/W as to how this type of support can be obtained by USAID in the future. It is highly unlikely that the Mission could have undertaken the effort represented by this project without a flexible support mechanism such as the OSU Cooperative Agreement and the "center of excellence" represented by the OSU financial markets program. It is extremely difficult for USAID missions to initiate programming in new and sophisticated technical areas without a transitional support mechanism such as the cooperative agreement device.

5. The Mission has maintained a relatively low profile in the implementation of this Project. On balance, this approach appears to have been sound. Now, however, deeper USAID involvement might well strengthen the hand of technocrats, facilitate operations, and enhance coordination for effecting changes in this Project and the development of a new project.

C. With respect to follow-on activities:

1. Desirability of follow-on activity

The primary recommendation of the evaluators is that the Mission should indeed follow up on RSMP and continue to work in the field of financial sector reform in the Dominican Republic. The ideal approach would be a comprehensive financial sector development program incorporating suggestions discussed below. But if a comprehensive program is not feasible, then one or several of the approaches described are well worth addressing individually. The precise approach adopted is less important than the decision to continue to build on the RSMP and related Mission efforts in recent years.

The rapid development of the BAGRICOLA effort and the slow development of the credit union effort suggest that the RSMP design has been superseded by implementation experience, a wholly appropriate outcome in an experimental project. The evaluators recommend developing a new project which would follow on before or immediately after the FY 1986 PACD of this Project. In that connection, the Mission should consider a small augmentation of RSMP funding to sustain the project's momentum during the transition from RSMP to a larger follow-on project. If a major follow-on effort (such as those discussed below) is not feasible immediately, the Mission may wish to consider a somewhat larger augmentation of RSMP effected through a project amendment to sustain RSMP activities beyond the current PACD. If the Mission does not wish to undertake a new follow-on project, resources and objectives of this Rural Savings Mobilization Project should be reexamined with a view to preserving resources to maintain the more successful initiatives of the Project even at a low level of activity.

2. Completion of RSMP

RSMP has achieved some notable results in its first year of implementation. It has also encountered some problems several of which the Mission has already addressed. Generally, these are "second generation" problems - consequences of achieving "first generation" objectives. Most important, RSMP has become a vehicle for strong Dominican managerial and intellectual leadership. The project should be completed and follow-on activities (discussed at 3-6 below) initiated. A few important adjustments in RSMP which will be desirable during the remaining life of the project include:

a. BAGRICOLA

USAID should assure access by BAGRICOLA to technical assistance services in order to monitor progress of the savings mobilization effort and its impact on bank operations and in order to continue close advisory support to BAGRICOLA officials on key banking management issues. Preferably such additional assistance would be provided in the context of a transition to a broader BAGRICOLA institutional development project such as that discussed in section V D.

b. Credit Unions

The question of identifying an institutional base for the credit union activity should be resolved as soon as possible. Results of the work done in the four pilot credit unions should be monitored for a number of months before replication is undertaken. Planning follow-on credit union assistance activities should be initiated in the context of new project activity as discussed in V E.

c. Research

Additional local currency resources should be made available to Dominican researchers to help finish and publish research projects and to provide incentives for new research initiatives.

3. A Comprehensive Financial Markets Development Project

The evaluators recommend early mission consideration of a comprehensive financial sector reform project. Evolving circumstances in the Dominican economy combined with the opportunities for policy dialogue and innovation generated by RSMP may make a thorough reexamination of financial sector policy and institutional development feasible. One cannot predict the outcome of a process of policy dialogue; however, even modest policy changes in financial policy can yield great dividends. It is possible that a comprehensive approach, while difficult, may have a better chance to be effective than a narrower, "piecemeal" approach to financial sector problems.

The ultimate objective of a comprehensive financial sector development project would be a national financial market which would encourage a free flow of resources to the most productive uses which in turn would generate the greatest benefits to the economy overall. In the near term, however, the purpose would be a relatively modest one of designing a framework within which policy planners and institutional managers can define their plans and objectives for financial policy reform and institutional development. This framework would be, in essence, a system of indicative planning within which responsible officials can make plans in light of reasonable expectations of the plans and intentions of other responsible officials.

Supporting the development of this framework would be a process of planning for the financial sector including the gathering of data, research and policy analysis, and development of individual project activities to assist the institutional development process. This process would build on the considerable work already done in this area and help to rationalize and focus knowledge and interest in the field.

The process would begin with the design of an overall program for financial sector development. Either all or selected portions of the overall program would be "projectized" by USAID (or other donors or the GODR with its own resources). Depending on the availability of resources and other factors, the program could be implemented in its entirety immediately or in parts over time. But a comprehensive planning process would help assure that the pieces (and especially the policies) fit together, the data is gathered and analyzed efficiently, and that expectations are clear.

Some of the individual parts of a comprehensive program are discussed below. The individual components suitably revised can also be viewed as "stand-alone" projects

4. Financial Sector Information, Analysis, and Planning

RSMP provides a useful model of research and policy dialogue which could well be expanded to promote broader financial sector reform objectives preferably within a comprehensive sector program but also very usefully as an independent follow-on and expansion of the RSMP concept.

A research and policy analysis program could be structured with the following characteristics:

- a. Central bank management.
- b. Research conducted by numerous professionals in Dominican institutions (but with more generous support than has been available under RSMP).
- c. Technical support provided by U.S. professionals in conjunction with experts from other Latin American countries.

d. Public policy dialogue carried out through the medium of open workshops and forums; publication of articles by program participants; and, perhaps, other forms of information dissemination.

e. Establishment of an academic center for the study of financial markets in a major Dominican university.

f. Funding for a wide range of technical assistance in banking and financial institution management. The modernization of financial institutions can not only add to profitability and competitiveness but also encourage attitudinal changes which may be crucial to improving service to agriculture, to less wealthy customers, and to other groups in the society needing better financial services than are now available.

g. Research support and arrangements for U.S. training Dominicans in financial markets disciplines.

5. Institutional Development in BAGRICOLA

BAGRICOLA must evolve into a more effective financial institution to support agriculture and rural development in the Dominican Republic. BAGRICOLA cannot continue to function as a mere transfer agent of the GODR and international donors if the institution is to play a significant role in mobilizing domestic resources for agriculture. RSMP has encouraged a major step forward toward a much invigorated BAGRICOLA. This development should be supported and the real opportunities for institutional change now open should be exploited. At the same time, it must be recognized that some of the traditional "transfer agent" functions of BAGRICOLA are unlikely to be fully displaced for some period of time. The problem is one of how to encourage development in new directions while maintaining (and if possible improving) the still essential traditional functions.

We suggest that consideration be given to a transitional institutional development project in BAGRICOLA which promotes restructuring of BAGRICOLA into a "Rural Finance Agency" of GODR which would carry out both new and residual functions but within separate organizational units.

An AID project would provide technical assistance and some commodity assistance for computerization, improved communications, and other facility improvements. TA would address management issues including information systems; personnel implications of "banking for profit" (such as incentives); decentralization of decision making and making branches profit centers; methods of working more effectively with the private sector including co-financing and risk sharing with commercial banks; and developing practical techniques for dealing with the business/ farming community with its peculiar characteristics. A central concern of this project would be promotion of private sector financial support of commercial agriculture, a process which may require differential (but shared) risk taking by BAGRICOLA.

A strong research and policy analysis unit within BAGRICOLA would lend weight to the Bank's participation in policy dialogue and support development of new BAGRICOLA functions such as wholesale banking for new and existing small financial organizations, developing practical means to facilitate access to Dominican owned or controlled wealth and income in the United States, and mobilization of domestic assets such as rural land. Development of such possibilities may offer opportunities for mobilization of savings beyond those afforded solely by raising interest on deposits. However, they require technical skills and a sensitivity to private enterprise viewpoints. If a firmer common ground between public interest in development and private interest in profit and security can be found, considerable resources not now available can be called into the Dominican development process.

Consideration should be given to BAGRICOLA playing a technical support role to financial services groups such as credit unions, cooperatives, and similar organizations when and if it proves to be impossible for traditional support organizations such as federations to function effectively. BAGRICOLA might also be considered as an institutional base for financial education services including financial advice and training for rural people of moderate and low income.

An area of particular importance is the need to explore whether computer technology offers opportunities for decisive changes in the institution and in rural finance in general. In the past, agricultural lending costs have been high for a number of reasons including geographic dispersion of customers, inadequate decentralization (procedures and personnel issues), and lack of modern equipment, as well as default and late payment. The rapid advance of computer technology and applications to various financial operations may now permit a fundamental breakthrough in BAGRICOLA administration problems. While we understand that there is some technical assistance being offered in this connection, it would seem desirable to consider examining bank management in all its ramifications in light of new technological possibilities.

6. New Approaches to Base Level Financial Services

The problem of financial intermediation and services for people of modest means has been a development concern literally for decades. While many achievements have been recorded in individual situations, widespread success in helping organize the financial resources of large numbers of relatively poorer people has proven elusive. The problem seems to escape solution and yet is too important to abandon. The logic of establishing federations of cooperatives and credit unions to provide an institutional core and various necessary services to member organizations would seem compelling. Yet experience demonstrates that such "umbrella" organizations tend not to be viable in the absence of continuing donor support. Unfortunately, the Dominican Republic offers an example of this phenomenon.

Rethinking this problem and experimenting with new alternatives to its solution deserves serious attention in the Dominican Republic. There are a number of alternatives available to the Mission to help develop financial services for people outside the commercial banking system, each with its peculiar advantages and disadvantages. The ADEMI experience and the reinvigoration of the four pilot credit unions under RSMP suggest that effective solutions can be implemented. RSMP presents an interesting model for base level financial organization development. When RSMP encountered a problem with FEDOCOOP, the Mission decided, wisely in the evaluators' view, to push ahead with direct assistance at the credit union level rather than try to deal with seemingly insurmountable problems at the Federation level. Obviously the cost of assistance to these four credit unions was high. Direct expatriate technical assistance should not be replicated in its current form. But if Dominicans can be trained to do what the OSU in-country advisors did without an expensive federation superstructure, wide-spread replication might be achieved at modest cost.

It may be worthwhile to try to build on this experience in a follow-on project. The proposed approach to technical assistance delivery would be a private enterprise, "consulting" model. It would focus on helping base level organizations (such as credit unions) to achieve financial competence. The model eschews umbrella organization support. Assistance would be provided by individual Dominican consultants, not by an organization. The individual Dominican consultants would be drawn from professional backgrounds and trained to provide necessary services to client base level organizations. Such services might be limited to:

- a. Explaining to base level organization members the reasoning behind savings mobilization, higher interest rates for savings and for lending, and related concerns;
- b. Installing bookkeeping systems to support internal accounting requirements; and,
- c. Assisting client organizations in establishing financial connections with banking organizations (including commercial banks as well as BAGRICOLA);

Training and organizational support for the Dominican consultants carrying out these functions would be centered in an existing financial institution. BAGRICOLA would be the ideal candidate. But that institutional function would be limited to providing support and evaluating performance of the individual consultants. BAGRICOLA would not be responsible for the success or failure of the consultants or the base level organizations.

A number of other experimental approaches to financial services for people of modest means might be considered besides the "consultant-base level organization" model. Some interesting possibilities include:

- a. Promote activities which draw lower income people into existing financial institutions. It would seem that an ideal way to lower costs is to use the institutional infrastructure of the banking community. But will banks lend to the poor? The establishment of credit is an important asset for people outside the formal financial system. In this connection, the ADEMI program offers a number of lessons well worth following up.
- b. In some countries use of "agricultural credit" for non-agricultural-production uses has been source of concern. Perhaps this is not only unavoidable but desirable. An experiment might be based on facilitating lending to extended families or other self-selected groups as an economic enterprise. Income and assets of the group would generate a base for borrowing for productive purposes not limited by sector.
- c. Approach financial services from an educational viewpoint. Use the formal education system as a vehicle to provide training both to students and parents in the use and understanding of money and its management. Support development of training programs in financial skills at school and university levels. Promote credit unions in schools as a practical method for exposing students to financial experience.
- d. Consider examining problems and opportunities in financing rural land transactions.

7. The Role of Credit In AID Financial Sector Projects

Cheap credit from governments and donors has been identified as a major cause of rural financial market dysfunction. A strong argument can be made that the availability of cheap credit has helped to make it possible for governments to maintain poor policies which result in unprofitable agriculture and a host of other economic and social problems. On the other hand, farmers need money to produce and to live. When such money is made available through donors and governments, certain ambiguities may emerge concerning perceptions of the nature of the transaction through which access to the funds is provided. Donors tend to think of such monies as "credit" and expect farmers to repay the "debt". Farmers may think of such monies as "credit" (and repay) if they can make a profit and can expect access to such monies in the future. However, farmers may think of such monies as something other than "credit" (and not repay) if they cannot make a profit or do not expect access to such monies in the future. This difference in perception was often in part resolved by providing money at below market interest rates. But subsidized credit commonly did not result in profitable agriculture, often much of the "money" did not reach the intended beneficiaries, and the effort to use "credit" to accomplish various economic and social objectives was seen to lead to systemic problems in the financial system ultimately redounding to the harm of the farmers themselves, a classic vicious cycle.

The farmers' immediate need for money is Banquo's ghost at the table of financial policy and institutional reform. Substantial infusions of credit to help meet farmers' current needs are desired and probably expected. But the anomaly of promoting financial policy reforms while offering "the hair of the dog that bit... (the financial sector)" is obvious.

It seems to at least one evaluator that the core issue in agricultural credit is not interest rates but the lack of profitability in Dominican agriculture. Until the policies and the system of access to inputs and markets which make agriculture profitable are in place, donor and government "money" may not be viewed as "credit" (in the sense of funds borrowed with the intention of investment and repayment).

In considering how to deal with GOH expectations and needs for AID funding for financial sector operations beyond technical assistance and commodities for institutional improvements, the Mission might wish to consider an explicit distinction between:

- a. Money for "credit" to encourage profitable agriculture
- b. Money for contingent transfer payments to farmers for defined economic, social, or political objectives

Financing "b." may well be essential for various reasons until the policy and institutional structure of the agricultural and financial sectors are in sound condition. But the process of reforming financial policy and institutions should not be carried out as an operational adjunct of effecting transfer payments in the guise of credit. Conversely, to the extent that "b" type financial operations take place, they should be clearly identified as transitional, related only to current economic difficulties, and with every effort made to limit its now well understood baneful effects.

I. INTRODUCTION

This paper constitutes the Report of the Evaluation of the USAID/Dominican Republic Rural Savings Mobilization Project (517-0179) and related activities. The work was conducted pursuant to purchase orders numbers 85-AID-002 and 85-AID-003. The evaluation team was composed of Charles Blankstein, State University of New York at Stony Brook, Chief of Party, and Jerry Ladman, Arizona State University.

The purposes of the evaluation as set out in the purchase order scopes of work was as follows:

1. Determine the extent to which Project goal and subgoals are being met;
2. Quantify accomplishments in savings mobilization, studies of formal and informal financial markets, and dissemination of project activities;
3. Reexamine Project targets in light of achievements and GODR financial reforms to determine if a reformulation of project purpose is desirable;
4. Identify major obstacles and bottlenecks in Project implementation and recommend necessary actions to remove them;
5. Forecast project impact in order to establish the basis for development of a second stage Project Identification Document.

Each team member was given additional specific issues to address in their individual scopes of work which are set out in Annex A. In the event, both team members addressed both lists of specific issues and the conclusions on these matters reflected in the Report are shared views.

In carrying out the work, the team was in country for a total of 23 person days including attendance at the Central Bank Workshop in Puerto Plata October 18 to 20, 1984. An additional 19 days of work were performed in completing the evaluation.

Interviews were conducted with 37 persons in Santo Domingo, Puerto Plata, La Vega, and Washington, D.C. The team reviewed the project paper, official project files, and related documentation in USAID. It considered USAID project related aspects and documentation of the Science and Technology Bureau Rural Savings Mobilization Project (936-5315). Eight research reports and eight research proposals were reviewed. The Agricultural Bank of the Dominican Republic (BAGRICOLA) statistics and procedures relating to savings mobilization and related bank operations and procedures were reviewed. The accounting system developed under the project for cooperatives was reviewed along with related information on cooperatives in the Dominican Republic.

Data and procedures on Central Bank management of local currency commitments under the project were examined. A search of the rural savings mobilization material in the AID Development Information System prepared by Mr. James Turner, PPC/CDIE was reviewed.

Cooperation of all respondents, institutional and individual was excellent. The team wishes to express its appreciation for the clarity and candor of all persons we approached in connection with this work.

The Report is organized so as to provide an easily accessible general overview while facilitating quick reference to specific activities and problem areas. The Executive Summary offers a brief overview with summaries of fundings and recommendations. Part II provides general background information. Part III is the core of the description of the project. This section addresses the three major components of the project individually and includes observation on progress toward particular objectives, identification of problems, and suggestions concerning adjustments which the mission and other participants may wish to consider during the continuation of this project. Part IV provides an assessment considering current and anticipated operational problems and issues which affect the project as a whole rather than specific components. Part V explores some possible follow-on projects and activities. Part VI offers concluding observations keyed to the Statements of Work in the two purchase orders.

II. BACKGROUND

The Rural Savings Mobilization Project (RSMP) is a product of two long and complex lines of development experience which should be outlined to place the project, and therefore the project's results and prospects, in perspective for evaluation. These two lines of development are the evolving concepts of rural financial market development and the tortured history of agricultural sector development in the Dominican Republic.

The Dominican Republic emerged from the Trujillo dictatorship with a strong traditional export agriculture but a weak institutional base to promote diversification and growth in agriculture. During the 1960's and 1970's, the Dominican Republic experienced rapid economic development. Among a number of developmental efforts, expansion and growth were promoted along many dimensions in the agricultural sector and in financial markets generally. Prices and exchange rates were generally stable. External agencies including AID, IDB, and IBRD channelled substantial resources into the burgeoning economy. By the late 1970's however, it was clear that results of years of developmental effort in the agricultural sector were disappointing. Substantial institutional development had taken place, but the profitability of many crucial agricultural commodities grown in the Dominican Republic was unsatisfactory. The country was importing many staple commodities. Rural incomes had remained relatively low while migration had swelled cities to roughly 50 percent of the population. Agriculture was not performing well.

The role of financial market performance in support of agriculture was a notable component, although by no means the only problem, in the picture. The ratio of agricultural credit to gross domestic product from agriculture, which had risen from 10.5 percent in 1965 to a still low but improving 19.8 percent in 1976, began to decline. Volumes of resources mobilized and credit granted declined in real terms. While a relatively sophisticated urban financial system developed, rural dwellers had access to limited and often no services from financial institutions. Little was known about the real cost and effectiveness of informal financial sources in rural areas.

The problems of rural finance were not ignored by the Government of the Dominican Republic (GODR) or the external development agencies. A number of efforts sought to improve performance of the BAGRICOLA and to provide credit, typically on highly subsidized terms, to rural dwellers, especially to small farmers. In 1979, dissatisfaction with the results of these programs led USAID/Dr to give preliminary consideration to a major effort to assist reform of rural financial markets. Unfortunately, the disastrous hurricanes of the fall of that year forced a redirection of attention toward more pressing problems including relief and reconstruction. Deepening economic problems associated with the decline in sugar prices, the rise of energy prices, deterioration of the exchange rate, and a host of other issues both exacerbated and were exacerbated by poor performance of the agricultural sector and rural financial markets.

Paradoxically, the decade of gradual, then accelerating decline in the Dominican rural economy paralleled an evolving change in the development community's understanding of the role and mechanics of rural financial markets and agricultural credit. The results of early research by several investigators was focused and greatly supplemented by AID in the 1973 Spring Review of Small Farmer Credit. This research suggested, among other things, that poor farmers can and will save; that such savings will be placed in financial institutions when positive real interest rates and facilities are available; that under appropriate circumstances poor farmers save at differentially higher rates than wealthier farmers; that transaction costs for poor farmers attempting to use formal financial institutions are often extremely high; and, perhaps the most counterintuitive finding, that low subsidized interest rates can be harmful to smaller farmers because scarce low interest rate loan funds tend to be allocated on the basis of non-market considerations which work differentially against the poor and powerless.

These findings gave rise to a fundamental rethinking of the premises of the ubiquitous subsidized agricultural credit project. Higher, free market interest rates, it was argued, would mobilize financial resources and make such resources available for competitive uses in agriculture. The concept was vigorously debated for years, widely accepted at an intellectual level, applied successfully in some cases, but perhaps more often than not found to be not implementable. The concept was not made widely operational, perhaps in part for purely political reasons, but often more importantly for economic reasons: when agriculture is not profitable at high (or for that matter low) interest rates, it is difficult to charge high interest rates for agricultural

lending. Since increased agricultural production and increased rural incomes were essential, the effort was made to "push" agricultural production (and later promote equity) with low-cost credit. Thus, the problem of interest rates was entwined with a number of agricultural policy issues, particularly, in the Dominican Republic, price policy.

The policy tensions associated with donor dissatisfaction with the performance of traditional agricultural credit operations and borrower resistance to raising interest rates were exacerbated by the economic reversals suffered by many developing countries in the late 1970 and early 1980. It became apparent then, if it was not apparent long before, that raising interest rates without fundamental policy and financial market reforms was impractical to negotiate, even if they were theoretically sound and operationally workable.

The inability to induce interest rate changes was one of a number of factors which tended, in the early 1980's, to shift the fulcrum of the financial reform argument from raising interest rates to mobilizing rural savings. The core argument was based on the notion that farmers can and will save and thus generate resources to meet their credit needs. To attract their (and incidentally others') savings, a higher interest rate must be paid and convenient savings facilities made available.

It followed not only that higher rates must be charged for credit but also that the very behavior of financial institutions and their officers must change. Rather than banks, such as the Agricultural Bank of the Dominican Republic, acting as a mere conduit for low cost resources from government and donors to farmers, the mobilization of savings would put such institutions in the business of buying and selling money. The incentives of private sector enterprise would be brought to bear on agricultural credit. The viability of financial institutions serving rural areas would be enhanced. The rural population's access to financial services would be broadened. The forces of the market would promote competition and tend to rationalize rural finance. The policy force of this line of thinking in rural finance was subsequently buttressed by the strong private enterprise, free-market orientation of the Reagan administration.

From 1979 to 1983, USAID/DR kept an eye on rural financial issues and supported several in-country activities relating to rural financial market interests and to the broader problems of agricultural sector policy reform. In this period the Mission undertook several major efforts in research and operations involving financial markets, private enterprise promotion, and "policy dialogue." Dr. Roberto Castro, upon his arrival in Santo Domingo refocused Mission attention on the problem.

Most of the practical experience with the "new wave" rural financial market doctrine came from Asia, in particular Taiwan, South Korea, and the Philippines. However, several projects were undertaken in the Latin America region including efforts in Peru and Honduras. It was this experience that the Mission sought to draw upon in 1983, when it addressed once again the

problem of rural financial markets in the Dominican Republic. As it had in 1979, the Mission drew on the Ohio State University rural financial market group through the Science and Technology Bureau cooperative agreement mechanism.

These two lines of experience, the emerging "new wave" financial markets doctrine and long standing stagnation of key components of Dominican agriculture illuminate both the thrust and the limitations of the RSMP in its current form. As this Report will document, the project has had exceptional initial success, not only in attracting savings but also in promoting in-depth policy dialogue and initiating institutional reforms.

The project could well encourage financial sector reforms of importance far beyond the agricultural sector. Savings mobilization and financial reforms are likely to be the most significant impacts of the project, rather than the impact on agricultural production.

Thus RSMP may prove to be a landmark application of "new wave" financial market development thinking. But it is doubtful that RSMP can lead to increased agricultural production and rural incomes, the project goal (PP p 15), absent fundamental changes in the profitability of Dominican agriculture.

The question of whether RSMP can achieve its stated agricultural sector goals or is more likely to contribute to a different set of goals in the "financial" sector has more than passing significance. Consideration of follow-on activity should, of course, address this matter as a basic issue of Mission strategy. The Mission may wish to undertake a financial sector development program without the constraints of a rural focus. In this connection, it may be useful to note that much of AID's "financial sector" operations have been focused on the rural sector perhaps because credit and interest rate issues were, in the past, addressed primarily in the context of rural development and the unsatisfactory performance of agricultural credit projects. The reader may wish to consider a number of the issues commented upon in this Report in a broader "national financial market" context as well as in the "rural financial market" context.

III. THE PROJECT

A. Overview

The Rural Savings Mobilization Project (RSMP) was authorized on July 7, 1984, with projected costs of \$1,292,000 including \$438,000 in foreign exchange costs and \$854,000 in local currency costs of which the host country contribution totaled \$792,000.

The goals and subgoals of the project (Project Paper, page 15) are as follows:

Goal: Increase agricultural production and incomes of the rural population, particularly the rural poor (by means of 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)

- Subgoals:
- 1) make rural financial institutions more responsive to rural development needs; and,
 - 2) broaden access to savings and credit services of the rural (for) the rural population

In the purpose statement, RSMP was viewed as a "pilot project"... to demonstrate the feasibility of mobilizing voluntary savings in the rural areas. Furthermore, the 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."

There is a superficial ambiguity between the fairly conventional statement of rural development objectives in the primary statements (as reflected in the Logframe) and the ambitious, risky, and potentially very significant financial policy and institutional reform objectives set out as elaborations or explanations of the primary goal and subgoal statements. It is entirely understandable that the Mission would be reluctant to assert that it was attempting a bold experiment in using essentially intellectual rather than credit resources to induce a fundamental change in the understanding of the nature of financial markets in the Dominican Republic and thereby to encourage fundamental policy and institutional reforms. As events unfolded, ambiguity in the goal and purpose statements have not caused any apparent confusion. But the Mission may wish to reformulate the articulation of goal and purpose of the project.

It appears to the evaluators that the key objectives of the project could well be financial policy and institutional reforms achieved through in-depth policy dialogue carried on by means of major experimental operations in financial institutions and public debate in open forums supported by academic research and technical assistance.

If such a reformulation of goals and purposes were undertaken, a new assumption would perforce be incorporated: that policy change in financial markets can be achieved not by applying "leverage" through funding credit operations but merely by helping people to understand what is going on in their environment, suggesting possible means through which desired change can be accomplished, and relying on responsible host country people to do the best they can within the political and economic constraints as they see them to accomplish the desired results.

The evaluators make the foregoing observations at the outset for several reasons:

1. It is not now possible, nor is it likely to be possible in the near future, to evaluate whether the stated primary goals (increase agricultural production and rural incomes) and perhaps the subgoals (make rural financial institutions more responsive to rural development needs and broaden access of the rural population to savings and credit services) are being or will be achieved. These outcomes are, in fact, assumptions albeit assumptions which the evaluators would endorse. The secondary statements of goals and subgoals can be evaluated

2. The "secondary statements" of goals and subgoal describe more important objectives than marginal increases in production and income and they are more precise than improving "responsiveness" to "rural development needs".

3. The rationalization of financial markets through policy and institutional reform is a development goal worthy of pursuit in its own right and not merely as a contributing factor in increased agricultural production or rural incomes. This is because financial rationalization can impact broadly on the efficiency of the entire economy. It is worth doing even if, as a result, agricultural production doesn't rise.

4. Demonstrating the process of policy dialogue through research, operational experimentation in institutions, and public discourse on complex economic issues may arguably be an objective of at least equal dignity and significance as the particular substantive issues addressed.

In the following section, the major components of the project are described in a slightly different format than presented in the project paper reflecting the course of implementation. The Project Paper treated pilot saving mobilization efforts in the Agricultural Bank and credit unions as single component. In fact, the two activities are almost wholly separable and are therefore treated in separate sections. The Project Paper treats research and dissemination as separate activities. In the event, these two activities must be viewed as inseparable and are so treated below.

In short, a great deal has been accomplished by RSMP and related initiatives. If the Mission elects to expand its efforts along the financial markets line, a rearticulation of objectives to reflect these accomplishments may be appropriate.

B. SAVINGS MOBILIZATION-AGRICULTURAL BANK

Background

The Agricultural Bank of the Dominican Republic (BACRICOLA) was founded in 1945 as a general development bank. In 1956, it began to specialize in credit for the agricultural sector. Prior to 1984, when savings mobilization was implemented under the A.I.D. Rural Savings Mobilization Project (RSMP), the Bank did not mobilize domestic resources

through savings or time deposits. In these years, BAGRICOLA obtained its loanable funds from three major sources: foreign donors, especially A.I.D., the Inter-American Development Bank and The World Bank, the Dominican government; and rediscounts under the Central Bank-administered Economic Development Funds (FIDE). With the availability of these funds, there was little incentive for BAGRICOLA to mobilize domestic financial resources. The Bank had a record of large deficits that stemmed from inefficient and costly operations, and high rates of delinquency. As a consequence, BAGRICOLA depended on government subsidization to cover its losses and infusions of more foreign loans to expand its loan portfolio.

One objective of the RSMP was to establish a savings capacity within BAGRICOLA that would effectively mobilize resources in domestic financial markets, thus allowing the Bank to become less dependent on foreign financing. Further, the process of savings mobilization would lead to the creation of incentives within the Bank that would encourage more cost efficiency. If successful, BAGRICOLA would encourage more cost efficiency. If successful, BAGRICOLA would become a true financial intermediary by offering services to savers as well as borrowers. In performing this role, the Bank would promote improved resource allocation and thus a more equitable distribution of income.

Description of Activity Under Project

The project played an important role in initiating thinking among Bank senior-level officials about the benefits of savings mobilization. Major events in this process were the October 1982 and October 1983 workshops. The former stimulated thinking, and the latter was important in fostering implementation of program. There were two additional factors that were instrumental in hastening the process. First, the rapidly deteriorating economic situation between 1982 and 1984 caused Dominican officials to look more to internal sources, and less to external funds, for generating loanable funds. Thus, the harsh reality of economic conditions caused the Bank to be more receptive to what the OSU-RSMP proposed to do. Second, in early 1984 there was a change in the Administrator (the title for the Chief Executive Officer) of the Bank. The new Administrator, Mr. Rafael Angeles Suarez, former Minister of Agriculture, was more receptive to savings mobilization as a policy concept and took it on as a major project of his administration. These two factors, in combination with effective promotion and support by the O.S.U. team, were instrumental in causing BAGRICOLA to launch a major savings mobilization program in 1984.

On June 7, 1984, the Monetary Board authorized BAGRICOLA to receive savings deposits. On July 2, the first savings were mobilized, beginning in one branch. By October 12, 1984, fourteen of the thirty-one BAGRICOLA branches were mobilizing savings and there were \$672 thousand pesos on deposit. Clearly, the program had gotten off to a rapid and robust start.

BAGRICOLA Administration of Project

Savings Office. The savings mobilization program within BAGRICOLA is administered by a Savings Office that reports directly to the Bank president. The work of this office is basically promotional and operations oriented. Broad policies are established at high level offices within the Bank. The head of the Savings Office, Sra. Anna Cristina Manana, has twenty years prior experience in commercial banking in the Dominican Republic, her most recent position being, assistant to the head of the Chase Manhattan Bank in Santo Domingo. Hired on a temporary basis in early 1984, her position was regularized in the Bank's budget, beginning in November, 1984, which demonstrates the Bank's commitment to the program. Sra. Manana exudes confidence in her abilities to run the program, appears to have the program under control, and is very confident about its success. She and her assistant office head appear to be performing very effectively.

Promotion. There are two aspects of promotion carried out by the Savings Office. First, is the development of programs and materials to be used to encourage saving. Savings mobilization campaigns have been launched in each of the participating branches. Methods used include: posters placed in bank offices, large street banners strung across major streets, radio announcements, and promotional calendars. Much attention has been given to discussions by bank agents with bank borrowers in an attempt to encourage them to save. There are plans to develop promotional brochures. In addition, as part of the promotional campaign, a form of raffle has been planned. Each quarter within each branch a depositor's name will be drawn from a hat. The Bank doubles the winner's amount on deposit, up to a maximum of \$5,000. As of mid-October, however, the raffle had not been implemented for the third quarter (July-September) of 1984.

The second aspect of promotion carried out by the Savings Office has been to motivate individual BAGRICOLA branches to participate in the project. The Office has been quite successful in this regard. The O.S.U. team recommended that the project be initiated with a pilot program limited to four branches in order to gain experience before expanding the project to all branches. The leadership of BAGRICOLA, however, has been much more aggressive, pushing the pilot project to twenty branches in December with plans to extend it to others in the near future. BAGRICOLA is anxious to extend the program to all branches as soon as possible.

Operations. The Monetary Board established several conditions in its authorization for BAGRICOLA to mobilize savings. The Bank was required to keep its savings deposits in a separate account from other bank funds in order to protect them from being used for unintended purposes. Further, the savings program within each branch office must be self contained, i.e., there would be no flow of mobilized funds to other branches. This was done to prevent funds flowing to urban areas and to encourage saving by assuring depositors that the savings would be used to benefit the economy of the local region. This arrangement places the responsibility directly on the branch to lend the funds

mobilized, with the exception of the 10 percent legal reserve requirement. At a later stage, when BAGRICOLA becomes more experienced with the program and is certain of its capacity to manage its flow of funds, it is envisioned that the Bank would make provisions for flows between branches in order to allow more efficient use of the mobilized resources in accordance with regional supply and demand conditions.

Two types of time deposit accounts are available to savers, savings and fixed-term deposits. The Monetary Board set forth maximum rates of interest that BAGRICOLA could pay. As of October, 1984, the savings accounts were paying a 6 percent rate of interest, compounded monthly on the average daily balance: the equivalent of 6.17 percent annually. These deposits were withdrawable on demand. Fixed-term time deposits are made for 180- or 360-day periods, and pay 10 percent interest, compounded monthly on a daily balance, which is a rate of 10.47 percent per year. The interest rates are competitive with those paid by the commercial banking system.

The effective loan interest rate for credit extended from the mobilized funds is 15 percent, consisting of 12 percent interest and 3 percent commission. Depending on the source of funds, this leaves BAGRICOLA a spread of between 8.83 and 4.53 percent.

Incentives for branch bank employees to promote savings were established by the Savings Office. One percent of the amount mobilized in each branch is placed in a fund which is shared by all branch employees, except the manager, in proportion to their salary. The performance of branch managers under the program is considered along with other performance factor at the time of their annual salary review.

Problems. Savings mobilization has created a new set of problems for the Bank. Although the program is generally well-received by BAGRICOLA employees, it has created several new tasks and burdens. First, the branch managers, although, they have incentives to mobilize savings to reflect favorably on their performance, also have a disincentive: they must turn around the funds mobilized into loans in order not to lose revenue and maintain the advantage of their spread. Moreover, they must try to lend these funds to clients who demonstrate a high probability of repayment in order to cut future bad-debt losses. Given the Bank's experience with high delinquency, this means being very selective among borrowers. Branch managers are concerned about this and have demonstrated a reluctance to mobilize more than they can lend, obviously seeking some equilibrium.

Second, the need to keep records and calculate interest on the savings accounts has placed a considerable burden of extra work on some personnel. There are plans to solve this through the installation of mini-computers in the branches. If this proposal is implemented, the computers should also assist the branches in other aspects of record keeping.

Third, BAGRICOLA has become very conscious of the need to reduce the costs associated with operations and delinquency as well as revenues from interest rates as it has to determine the interest rate spread between savings and loans. While this is a problem for the Bank, it is a blessing for the project because it forced BAGRICOLA to become cost conscious and aware of the role of interest rates.

Role of O.S.U. Team

The O.S.U. team has been very effective in its work with BAGRICOLA. This work has been accomplished mostly by two persons, Dr. Claudio González-Vega and Mr. Jeff Poyo. Two consultants, Dr. Eduardo Montiel, and Dr. Carlos Cuevas, have also made significant contributions.

Dr. González-Vega, O.S.U. Project Director, has overseen the entire operation, and has taken an active role in developing strategy. He has concentrated on working with senior-level Bank officials and the Bank's Board of Directors as well as establishing an important link to the Central Bank. In this capacity, he has been successful in creating an understanding within BAGRICOLA about the importance of the institution entering into savings mobilization and in providing general advice on appropriate policies to implement it. This has been accomplished by visits during nine regular trips to the country in the first year of the project.

Mr. Poyo, has an office in the bank. Since October 1983 he has been in residence in Santo Domingo. In the planning and formulative stages of the savings program, he spent about 70 percent of this time working with the Bank. His efforts were directed to developing procedures, interest rate policy, and promotional materials. He, along with Dr. González-Vega, has had easy access to senior-level Bank officials. Now that the program is implemented, Mr. Poyo has very little to do with routine operational matters which are being assumed effectively by the BAGRICOLA Savings Office. At present, Mr. Poyo divides his time between Bank matters, in particular evaluating the effects of the rapid expansion of the savings mobilization program, and various aspects of savings mobilization in credit unions.

During the first year of the project, Dr. Carlos Cuevas of Ohio State University worked with Mr. Poyo in initiating a study of Bank operations costs. Dr. Cuevas had undertaken a similar project in Honduras. This project is designed to provide the Bank with detailed information on costs and enable them to become more cost efficient by making modifications in operations. Cost efficiency in operations is extremely important to the success of the savings mobilization project, because costs directly impacts on the interest rate spread between savings and loans. In this capacity, Dr. Cuevas made one trip to the Dominican Republic and met with Mr. Poyo on several occasions at Ohio State University. It is anticipated that Dr. Cuevas will return to the Dominican Republic on one or two more occasions in the second year of the project.

Dr. Montiel, Professor of the Central American Banking Institute, was hired as a short-term consultant to study BAGRICOLA'S delinquency problem. This work emanated from the deep concern of senior-level officers in the Bank about how the costs associated with delinquency might impact negatively on the new savings mobilization program. In the first project year, Dr. Montiel made three trips to the Dominican Republic and is scheduled to return in November, 1984. Dr. Montiel has also provided BAGRICOLA advice on their record keeping system and its computerization.

The November 1983 and October 1984 workshops, in which O.S.U. played a major organizing role, were also an extremely important contribution to the Bank's savings mobilization program. A number of key persons from BAGRICOLA attended each workshop. In 1983, the need for savings mobilization was discussed by foreign experts with considerable experience in other countries. This exercise was important in creating an awareness of the importance of mobilizing saving and identifying research projects for RSMP funding. One of these projects was undertaken by Dr. Cuevas and Mr. Poyo. Another was an evaluation of the BAGRICOLA savings mobilization program. This was undertaken by Mr. Poyo and Lic. Ramón Emilio Aguino, Head of the Bank's Programming Department. The results of both were reported in the 1984 workshop.

In summary, it appears that the O.S.U. team has been very effective in establishing good relationships with BAGRICOLA personnel and officials. They have played important roles in assisting the Bank in conceptualizing and implementing the savings mobilization program. Now that the program is in operation, the O.S.U. team has moved into the background, letting BAGRICOLA run its own program. The O.S.U. team, however, continues to work closely with Bank officials in trouble-shooting problems, responding to needs for technical assistance, and monitoring the success of the program.

Potential Second-Year Problems

It was a big step for BAGRICOLA to move into savings mobilization so aggressively, but it has been accomplished. In this sense, one of RSMP's most important "first generation" problems has been solved. There are several "second generation" problems that are beginning to appear and will need to be dealt with in the second year of the project, and beyond, in order for the project to be viable and succeed.

First, although the BAGRICOLA savings mobilization program has generated considerable savings in a short period of time, it is not clear what the net impact has been on the total level of savings in financial institutions. Bank officials report that several depositors have opened very large accounts, apparently having transferred funds from other financial institutions to take advantage of the higher BAGRICOLA interest rates. To the extent this has occurred, there is no net change in saving in the financial system. This is not a serious issue this early in the program but ultimately significant net increases in savings should be a program objective.

Second, and related to the previous point, is that these large deposits create a liquidity management problem. If the deposits are suddenly withdrawn, the Bank may face a liquidity crunch. The BAGRICOLA has committed its own funds to lend to a branch to meet such a crisis, should it occur. But the existence of the potential problem reflects a broader need to establish a mechanism for the Bank to have access to some reserves that could be used by a branch to meet such shortfalls in liquidity.

Third, there is another management problem; that of lending out the mobilized funds. To make the program viable and self-financing, branch managers must lend the mobilized funds rapidly, and for loans that have an exceedingly high probability of being repaid on time. This places on branch managers a responsibility to which they are unaccustomed, and, as has already been observed, causes them to be hesitant in mobilizing savings in amounts that would exceed what they believe they can safely lend. In essence, the introduction of savings causes them to assume a commercial banking mentality, something for which their earlier experience with BAGRICOLA may not have prepared them. Therefore, it must be expected that there will be a learning period before branch managers will aggressively pursue savings. It is essential that the learning experience be positive, in the sense that loans are recovered in a timely manner; if not, branch managers will have little enthusiasm to mobilize savings.

Fourth, is the need for the bank to become more cost efficient. It needs to seek ways to reduce both the costs associated with operations and delinquency.

Fifth, in the longer run BAGRICOLA probably will need to develop means to shift funds mobilized between branches in response to the excesses and shortages that exist within each of the regional markets in order to maximize their gains from the spread. Such a program would also better allocate financial and real sources.

Sixth, the management problem of record keeping and computing interest has already been clearly identified. The proposed solution of using microcomputers in the branches is sound. It will require, however, funds to make the capital investment and to train bank personnel in computer operations.

Seventh, to date, the savings depositors have come mostly from previous or current BAGRICOLA borrowers. The Bank should try to capture funds from other groups within the regions it serves in order to act as a true financial intermediary.

Eighth, the program was implemented in the Bank's branches that were considered best suited to the program's success. As it is expanded to other branches, less dynamic results can be expected.

Ninth, there will be pressure within the Bank to expand the saving mobilization to the remaining branches. This will need to be tempered. The argument should be made that it is necessary to learn from the pilot project before implementing the program on a full scale in order to avoid what could be costly mistakes.

In summary, there is a strong likelihood, that BAGRICOLA has solved the "first generation" problem—getting the savings mobilization program established and in operation. It is now going through a stage of rapid growth. In this stage, deposits were easily mobilized among existing clients and a few large depositors by offering competitive interest rates and aggressive promotion. The nine above-mentioned reasons suggest, however, that future growth may be much slower. It may be that the most easily mobilized savings have already been deposited. This, in combination with the several internal management problems, will cause the Bank and, especially the branch managers, to move more slowly in pressing for more savings. Therefore, there is ample need for additional technical assistance and study by the O.S.U. team during the second year of the project, and, probably for several more years in the future, to assist BAGRICOLA in confronting and resolving the new problems as they appear.

C. SAVINGS MOBILIZATION-CREDIT UNIONS

Background

The Dominican Republic, as most Latin American countries has had a cooperative movement for some time. A major component of the movement has been credit unions. These credit unions have mobilized forced saving through the deposits required of their members. There have been very few attempts to mobilize voluntary savings in credit unions.

The first credit union was established in 1946. In 1949, The Dominican Federation Credit Union Cooperatives and Multiple Services, Inc. (FEDOCOOP) was founded to serve as the single institution to coordinate and promote the Dominican credit union movement. In October 1984 the Federation had 125 members, of which fifty-four were located in rural areas. Headquartered in Santo Domingo, FEDOCOOP's main services to credit unions are: promoting the credit union movement, providing technical assistance, educating credit union officers, financing some credit union programs from loans received by outside organizations such as COLAC, auditing credit union books, and managing a life insurance program for credit union borrowers.

By most measures, FEDOCOOP is judged deficient in its performance. First, its financial situation is precarious. It is heavily in debt to COLAC and other institutions for monies from loans that FEDOCOOP obtained for relending to member cooperatives. Many of FEDOCOOP's loans to the cooperatives are in serious arrears. As a consequence, FEDOCOOP can not service its debts; as of December 31, 1983, it was \$RD418,046 in arrears in payment to its creditors.

Second, FEDOCOOP has run losses in its annual operations. In 1983, it ran a deficit of \$RD179,567, the equivalent of about 30 percent of its total expenditures. It has also experienced related cash flow problems. One consequence was that employees did not receive their salary checks on schedule.

Third, the member cooperatives have been very dissatisfied with the services rendered by FEDOCOOP. The Federation's financial difficulties have forced it to cut back on its services to the credit unions, seriously threatened the life insurance program for borrowers, and shut down the Federation's access to funds for lending to cooperatives.

Fourth, in general, the financial status and activity of most Dominican credit unions is weak. This in itself, suggests that FEDOCOOP has not done its job.

Description of Activity Under Project

Credit unions are the one financial institution structured to mobilize savings, albeit mostly forced savings in the form of required deposits. The decision was made in the RSMP project proposal to build upon this base and to use credit unions as a base for mobilizing voluntary savings. As the credit union federation, FEDOCOOP was a "natural" selection as the entity to develop and administer a pilot volunteer saving mobilization program in four or five selected credit unions.

In the first year of the RSMP, the thrust of the effort was directed to selecting the credit unions to participate in the pilot project, developing procedures and policies for mobilizing savings in the credit unions, and training credit union personnel. FEDOCOOP and the O.S.U. team expect that the new volunteer savings mobilization will be initiated in each of the four pilot project credit unions by the end of 1984. In addition to project funds, the program benefited from PL 480 funds, which allowed hiring two Dominicans to work with FEDOCOOP, and a special grant from A.I.D., which hired an ex-Peace Corps volunteer and one Dominican to work in training credit union personnel and developing a record keeping systems.

Selection of Credit Unions

The process of selection of the credit unions for participation in the pilot project was time consuming. The project paper had tentatively identified the specific credit unions for the pilot project, but it was decided in implementing to work with other credit unions. Thus, the first four months were dedicated to selecting the participating cooperatives. By January 1984, from an initial list of ten credit unions provided by FEDOCOOP, four were selected on the criteria of previous experience in mobilizing voluntary savings, record in loan delinquency, and demonstrated management and accounting abilities. During this period, each of the ten credit unions was visited by the O.S.U. team.

Between February and April 1984, the O.S.U. team worked with each selected credit union in order to convince them to participate in the project. The general assemblies of each voted to participate.

Training Programs

The next step was to work with the credit unions in educational and training programs. At this time, additional assistance was required. Using PL 480 monies, in June, Mr. Rafael Virgino Gerjardo was transferred from the regular FEDOCOOP budget to work with the program as an accountant, design record keeping forms, and serve as a technical advisor to the San José de las Matas Cooperative. In August, Mr. Ruben Mateo, was hired with PL 480 funds to work as an advisor with the Vallejuelo Cooperative. Both are considered employees of FEDOCOOP (the PL 480 funds went to FEDOCOOP), and work out of Federation headquarters. They are supposed to spend at least one day per week at their assigned cooperative. Because both are FEDOCOOP employees there has been some tendency by FEDOCOOP to use the two technicians for other Federation business, thus diverting them from their work on the project.

In September, two more persons, not FEDOCOOP employees, were added to the staff under separate A.I.D. funding. Ms. Anne Uhring, a former Peace Corps volunteer in the Dominican Republic, is working as an advisor with the La Vega Real Cooperative and Mr. Elias Jimenez is advising the Santa Lucia Cooperative. Ms. Uhring is scheduled to return to graduate school in the United States at the end of 1984.

By the end of October 1984, substantial progress had been made in training, and it was expected that all four credit unions should mobilize voluntary saving under the project by the end of 1984. At that time, each cooperative will continue to need close technical assistance to troubleshoot problems.

Strategies for Mobilizing Savings

Within each cooperative strategies were worked out for promotion of the savings mobilization program among its members. It is planned to use a raffle to inaugurate the program. A number of means are planned to promote the program including flyers to be delivered door to door, street banners, slides for movie theatre advertising, and radio announcements.

In October, the interest rate policy for voluntary savings was still under discussion. The basic philosophy is to pay competitive rates. The O.S.U. team has pushed for 2 percent monthly, realistically hoping to obtain a rate of about 1 percent. This is somewhat problematical because the decision will have a direct impact on the loan rate. Currently the loan rate is typically 1.5 percent per month.

Problems

The project has not developed as rapidly as desired, due to the time-consuming processes of selection of credit unions and training. There are two basic reasons.

The first reason was the lack of real support from FEDOCOOP. In the beginning, the O.S.U. team spent much time and energy in trying to work within FEDOCOOP. The planned cooperation, however, did not materialize as was expected because of both the Federation's serious financial difficulties, which forced it to turn its energies to other matters, and FEDOCOOP's inherently weak administrative structure. Consequently, the work had to be initiated almost entirely by the O.S.U. team. Now, although the project is officially within the Federation, in effect it is run independently by O.S.U.

The second reason for the slow development of this component of RSMP was the heavy involvement of the OSU team in establishing the BAGRICOLA savings mobilization program in the early months of the project. Therefore, there was insufficient time to devote to the credit union project to make it progress more rapidly.

This experience raises the question as to whether the project should continue to look to FEDOCOOP as the institutional base for its operation. Lic. Bernardino Ortiz Vargas, General Manager of FEDOCOOP, definitely views FEDOCOOP continuing in this role. His position is very understandable. He believes the project is good for the credit union movement, and FEDOCOOP by definition should be the institutional base. Moreover, he envisions it as a way for FEDOCOOP to gain additional resources. He anticipates receiving direct support for staff and program activities. An example is the hiring of the two technicians with the PL 480 funds, one of which substituted for a Federation funded position. There are also indirect benefits: if the participating member cooperatives are able to improve their economic condition, FEDOCOOP's potential for recovering their outstanding and overdue loans to the cooperatives should be enhanced.

Nevertheless, FEDOCOOP is not adequately performing its role in the savings mobilization project. Were O.S.U. to withdraw from managing the program, the project would be almost certain to fail. Consideration needs to be given to finding or creating another institutional home for the credit union component of the RSMP. It does not appear that FEDOCOOP will be adequate for the task.

With or without FEDOCOOP, the project will require considerable human resources to work with the individual cooperatives in the planning and implementation of savings mobilization programs. Ms. Uhring is scheduled to leave at the end of 1984 and there are no funds to continue Mr. Jimenez's position once the separate A.I.D. project terminates. Their responsibilities will have to be assumed by the two FEDOCOOP technicians unless other funding

is found to continue Jimenez and replace Uhring. It is important that a stable group of Dominicans be trained to carry out these tasks in order for the program to succeed. It is a long-run effort that will not be able to be accomplished in the next year.

In spite of these problems, the participating credit unions are optimistic. An interview with the Manager and the President of the Administrative Council of the La Vega Cooperative, demonstrated the enthusiasm of the individual credit unions for the savings mobilization project. This credit union has a need to obtain additional funds in order to allow it to meet the demand for credit from its members. Credit is not available from FEDOCOOP, and mobilizing savings offers them a source of funds. In the words of the president, "the savings mobilization project will be the salvation of the credit union movement".

Role of O.S.U. Team

The O.S.U. effort has been almost entirely in the hands of Mr. Poyo. Dr. González-Vega basically serves in an overseeing and advisory capacity.

As noted previously, about 30 percent of Mr. Poyo's time was devoted to cooperatives during the first half-year of the project. In this phase, his work was mostly selecting the pilot study credit unions and actively promoting their participation in the project. In the last half-year he estimated that about 70 percent of his time was involved in the credit union project. In this capacity, he frequently visits the participating credit unions, conducts seminars for their members, trains credit union staff and assists in the preparation of forms and documents.

The O.S.U. team has been reasonably successful in moving the program along under the difficult circumstances including poor support from FEDOCOOP; working with fundamentally weak credit unions; and constraints on Mr. Poyo's time. Without the assistance provided by PL 480 and A.I.D. direct funding (which funded Ms. Uhring and the three Dominican technicians) the project would not have moved along nearly as rapidly.

Potential Second-Year Problems

In the first year, the general goal was to get a new pilot project voluntary savings mobilization program underway by establishing an institutional base that could shape and manage the project and undertake promotional and training functions. Although, the FEDOCOOP institutional base has proven to be weak, considerable progress was made in initiating the program by the O.S.U. team with the help of personnel funded from several other sources.

The project got off to a moderately slow start, but in late 1984 the pace had quickened and the participating credit unions appear to be ready to receive the first voluntary deposits by the end of the year. The savings mobilization project has been well received by the pilot project credit unions. These cooperatives have great expectations from the project as a means of acquiring additional loanable funds and helping to alleviate their financial difficulties.

In the second year of the project there are very substantial second generation problems to be tackled. There are two classes of problems. Those associated with following through with the pilot project credit unions and those involved in replicating the project in other credit unions.

Pilot Project Credit Unions

With respect to the pilot project credit unions, there are several potential problems that must be dealt with. First, the promotional campaigns will need to be put into effect.

Second, once the funds are mobilized there is a need for liquidity management in order to have sufficient reserves to cover anticipated and unanticipated withdrawals, taking account of the possibilities of delinquency on loans made from the mobilized funds.

Third, lending procedures must be worked out that will earn satisfactory income and protect the credit union against losses from excessive delinquency.

Fourth, additional problems in record keeping can be anticipated for calculating interest and in handling deposits and withdrawals.

Fifth, means must be devised to provide more staffing for the project. Each cooperative will need at least a one-quarter time person available to provide technical assistance. With the loss of Mr. Uhring, the possible loss of Mr. Jimenez, and the problems with the two FEDOCOOP employees, the project will be short handed.

Sixth, the question of whether or not to continue to work with FEDOCOOP needs to be addressed. Creative thinking needs to be applied to develop alternatives. There are several possibilities, including placing the program under BAGRICOLA or some other financial institution. Wherever located, special emphasis needs to be placed on building a team to carry out the work in an enlightened manner without extensive O.S.U. assistance. The question of financing the budget for this operation will need to be addressed. In the future, it may be possible to make such assistance self financed, but for the present this does not seem possible.

Replication

If the pilot project is successful and resources permit, consideration should be given to replicating the project in other credit unions. Again, the critical problems will be associated with establishing a good institutional base, forming a good team of advisory personnel and funding expenses.

Before replication is undertaken, however, there should be sufficient time to observe and evaluate the success of the four credit unions in the pilot study. In this manner costly mistakes can be avoided.

In summary, to date, the voluntary savings mobilization project in Dominican credit unions has depended almost exclusively on the O.S.U. team. As a Dominican entity it lacks the structure, organization, personnel and institutional base that exists in the BAGRICOLA project. These are weaknesses that need to be overcome if the project is to succeed, not only in the pilot credit unions but also in replication to other cooperatives. Funding will be required. These services are costly to provide. Whether or not the expenditure will prove to be worthwhile must be examined in light of the experience in the four pilot credit unions.

D. RESEARCH: DOMINICAN FINANCIAL MARKETS

Background

Little research has been undertaken in the Dominican Republic on financial markets, especially by Dominicans. The universities had not emphasized research in general, much less that of financial markets. Among the public-sector institutions, the Central Bank was the only entity that undertook financial market research, and in this case, the Bank's Department of Economic Studies was mostly involved in collecting and publishing statistical series of monetary and macro-economic indicators for the Dominican economy.

One objective of the RSMP was to develop a research capability on Dominican financial markets in the country. The purpose was two-fold: (1) to undertake research that would be useful in formulating policy for and evaluating the savings mobilization effort, and (2) to establish a capacity and capability within Dominican universities and public sector institutions to undertake research and continue to carry it out, once the RSMP is completed.

Description of Activity Under the Project

Given that the RSMP has been in effect only one year, the amount of research activity undertaken is quite remarkable. Furthermore, this activity has made important inroads into institutionalizing research units within the Central Bank and, to a lesser extent in the several universities. The research has been of an applied nature. As would be expected the quality is

uneven, but, much of it is good and very relevant to the goals of the project. It has been important in creating a better understanding of Dominican financial markets, evaluating the success of savings mobilization projects, and assisting in policy formulation related to financial markets.

The two key elements in research activity under the project have been: (1) use of workshops to identify research projects and report the results of these projects, and (2) work with institutions and professionals to encourage them to participate in the research effort, in order to create a research capability to address policy issues for financial markets in the nation.

Workshops

The two Puerto Plata workshops--held in November, 1983, and October, 1984--were the principal events employed to encourage participation in and report on the project's research effort.

November, 1983, Workshop. This workshop, held shortly after the project was initiated, was designed to bring together key persons from the financial institutions in the project and selected potential researchers from Dominican universities to discuss research needs and to select research projects for project funding during the first year (see Appendix "A" for workshop program). Several foreign (Drs. Dale Adams, Douglas Graham and Don Larsen of O.S.U.) and Dominican experts in rural financial markets were invited to attend the conference to comment on the proposed research projects, assist in selecting the funded proposals and to constructively interact with the researchers to improve their projects.

Eleven projects were proposed. Of this number, seven were selected for funding. These were:

1. "A Profile of Rural Financial Market Participants," Professor Osvaldo Cabrera and Professor Cándida Ramírez, Catholic University (UCAMAIMA), Santiago Campus.
2. "Appropriate Methodology for an Ex-post Evaluation of Agricultural Credit Projects," Professor Jaime Moreno and Lic. Pedro Rijo, Catholic University (UCAMAIMA), Santo Domingo Campus.
3. "An Analysis of Three Surveys on Agricultural Credit," Lic. Pablo Rodríguez, Technological Institute of Santo Domingo (INTEC), and Lic. José Achecar, Ministry of Agriculture.
4. "The Role of a Federation of Cooperatives (ACALEN) in Savings Mobilization," Lic. Osmar Benítez, Superior Institute of Agriculture (ISA).
5. "Non-regulated Financial Markets and Their Linkages to Regulated financial and Foreign Exchange Markets," Lic. Zunilda Paniagua and Lic. Agueda Lambert, Financial Department, Dominican Central Bank.

6. "Savings Mobilization by Credit Unions," Lic. Bernadino Ortiz, Federation of Credit Unions, Inc. (FEDOCOOP).
7. "An Evaluation of Transactions Costs and Deposit Mobilization at the Agricultural Bank," Mr. Jeffrey Poyo, O.S.U.

In addition to these projects, another funded by the RSMP was added to the list: "Savings Behavior by Depositors in the Dominican Republic," by Dr. Claudio González-Vega and Mr. Archivaldo Vasquez. This research is part of the masters degree thesis of Mr. Vasquez, a Dominican, who is undertaking graduate study in agricultural economics at O.S.U. under project funding.

Several consultants and O.S.U. faculty were incorporated into several of the projects as co-researchers, as a means to assist and guide the research effort. Dr. González-Vega and Dr. James Zinzer (of Oberlin College, an economist who has done considerable research on Dominican financial markets) were incorporated into the Central Bank Non-regulated Market Project (No. 5). Dr. Carlos Cuevas of O.S.U. worked with Mr. Poyo on the Agricultural Bank's Cost Analysis Project (No. 7).

October, 1984, Workshop. Eleven months after the first workshop, a second workshop was held for the purposes of reporting on and discussing research undertaken during the year, reviewing savings mobilization activity, and presenting proposals for project-funded research in the second year of the project (See Appendix "B" for workshop program). Sixty-five persons from a large number of Dominican institutions attended (see Appendix "C" for names and institutional affiliations of participants). Ms. Sandra Frydman, the AID/Washington monitor for the O.S.U. Cooperative Agreement and a strong contingent from USAID/Dominican Republic were in attendance, as well as other interested persons, some from the private sector. Participants appeared to be very enthusiastic about the project and there was intense interest and spirited discussion of the research results and proposals.

There were eight proposals presented at the workshop for the second year of the project. Decisions on projects to be funded will be made by representatives of selected Dominican institutions in collaboration with the O.S.U. team in late November 1984. The descriptive titles of the eight proposals presented were:

1. "Application of a Monetary Sector Model to Show Impact of Financial Market Variables on External Equilibrium," Dr. Andrés Dauhajre, Catholic University (UCAMIMA), Santa Domingo, in collaboration with the Dominican Central Bank.
2. "Agricultural Credit and Agrarian Reform in the Dominican Republic, Profs. Simón Santiago, Antonio V. Menéndez and Danilo Rojas, Technological Institute of Santo Domingo (INTEC).

3. "The Effect of Regulated and Non-regulated Financial Markets on Agriarian Reform," Mr. Ramon Pérez Minaya, Technological Institute of Santo Domingo (INTEC).
4. "Mechanisms and Instruments to Stimulate Savings in the Azua Valley," Mr. Joaquín Antonio Díaz and Mr. Cirilo Marte, Foundation for the Development of Rural Youth (FUNDEJUR).
5. "Why Credit from Formal Market Institutions Does Not Go to Agriculture," Prof. Jaime Moreno, Catholic University (UCAMIMA), Santo Domingo.
6. "Financial regulations and Savings Mobilization in the Dominican Republic," Ms. Lina Matos, Financial Department, Dominican Central Bank.
7. "Flow of Funds Between Rural and Urban Areas," Ms. Milady Santana, Financial Department, Dominican Central Bank.
8. "Social Impacts of Credit Use," Prof. Candida Emilia Ramirez, Catholic University (UCAMIMA), Santiago.

Development of Research Capabilities

As demonstrated by the above list of projects, a good number of different institutions and professionals have manifested a strong and active interest in undertaking research to date.

Central Bank. Of particular importance, has been the enthusiastic support for the research effort in the Central Bank. The Bank's Financial Department, under the leadership of its director, Lic. Zunilda Paniagua, has rapidly built up a research unit headed by Lic. Agueda Lambert. The unit has assembled a research team that has attacked several very interesting and important problems in understanding the role of non-regulated financial markets. Dr. González-Vega and Dr. James Zinzer have worked with the research unit on these projects. The research unit is well established, has demonstrated its ability to complete meaningful projects, and has the support of the Senior Bank Officials. It appears that a long-term commitment for this type of research is being established within the Bank. This is important given the key role of the Bank in the nation in financial and monetary matters. The Central Bank wholeheartedly placed its support behind the workshops, and played an important role in working with the O.S.U. team in making arrangements and issuing invitations.

BAGRICOLA and FEDOCOOP. The research effort in the BAGRICOLA and FEDOCOOP is much more limited. While supporting the concept of research, any that has been done, other than a descriptive evaluative analysis of the savings mobilization effort, has been undertaken by the O.S.U. team.

Nevertheless, the evaluative exercises are very important, in helping the Bank and FEDOCOOP to monitor programs and better understand success and failure elements in them. The work of Lic. Ramon Emilio Aguino of the Agricultural Bank has been particularly impressive in this regard. The work in FEDOCOOP has been much less impressive.

Universities and Institutes. There has been considerable research activity in the universities under the RSMP. Most of it being done by persons with M.S. or Ph.D. level training, largely in the United States. The interesting and policy relevant research opportunities presented by the project have been attractive to these professors, because of the limited scope for research in regular university programs. The work undertaken has been largely an individual effort. Consequently, the research program has not become institutionalized within the universities. Therefore, the institutional capacity has not yet materialized. What has occurred, however, is that individual professors have become much more aware of the problems of financial markets and, with project funding and O.S.U. guidance, have developed research skills to deal with these important problems. Some of the professors have introduced their new understanding of financial markets as well as the results of their research in the courses they teach. The project has clearly contributed to the development of human capital in the country.

Research Accomplished

During the first year, the work on the research projects moved along well, although none were completed by the time of the October, 1984, workshop. Most, however, were sufficiently far along that it was possible at that time to present preliminary results, which were well enough developed to be of use to participants and policymakers. There was considerable discussion of these results at the workshop. Many ideas were presented to the researchers about factors and points that they might consider as they proceeded toward their final conclusions.

Those projects that had accomplished the most were those with a base of strong institutional support, e.g., the non-regulated financial market studies of The Central bank, and those that involved the O.S.U. team, e.g., the Agricultural Bank's operations costs and the savings depositors behavior studies.

The projects undertaken by the Catholic University at Santiago had made considerable progress considering that they required extensive and time-consuming sample surveys that created important data collection, tabulation and processing requirements. At this time the results presented from this rich data base were only partial and descriptive. Much more analysis is required.

The INTEC project dealing with the three credit surveys had accomplished a descriptive tabulation of the responses. Considerable work remains, however, in analyzing the data and interpreting the content.

Research by the Catholic University in Santo Domingo on the topic of evaluation of agricultural credit projects is still in the state of conceptualizing the framework of borrower behavior, but considerable progress had been made on this technically difficult topic.

The ISA project on savings mobilization in ACALEN was basically descriptive of how this project works. Although less sophisticated than the other projects it was a useful case study.

The reports made by the Agricultural Bank and FEDOCOOP were studies of progress made on their savings mobilization projects.

Problems

Although the research dimension of the SMP got off to a good start, there are several problems.

First, it is necessary to see that the current projects are completed. Realistically, it will take several months or even much longer before they are done. In some cases, now that the workshop is finished (there was a goal to have reports on each project prepared for this meeting) incentives will need to be established, especially in the universities, to ensure that they are completed in a timely fashion. Because of the lack of strong university support for and appreciation of the individual professors' research work, and a consequent lack of rewards and concessions, the participating faculty are wondering if it is worth their while. These faculty are expected to reach a normal load of classes. As a consequence much of the research gets done on weekends and evenings. Perhaps it is a weakness of the project that more funding was not provided to allow these faculty to have qualified research assistants that could relieve them of much of the time-consuming work in data tabulation, etc. Incentives do not appear to be a problem in the Central Bank.

Second, and related to the first, is the need to build more solid institutional bases for research within the universities. If this is not done, the research effort of the participating faculty will eventually flounder.

Third, there has not been any systematic manner established for publishing the research results. There should be provisions for publishing good research to serve both as an incentive for researchers and as a means to make the research results readily available to other researchers, students and policymakers. Perhaps a monograph series published by the Central Bank would be most appropriate.

Fourth, some of the researchers now need additional technical assistance to complete their projects. This could be accomplished by hiring consultants to work with them. To some extent the discussion at the October, 1984, workshop accomplished this, but more in-depth collaboration is needed.

Fifth, a more formal process for refereeing the proposal projects is appropriate, in order to encourage the type of proposals desired. This process should clearly delineate the guidelines for project proposals and establish a formalized committee to review proposals.

Role of the O.S.U. Team

The O.S.U. team has played an important role in the RSMP research effort in several ways.

First, it has been very effective in identifying researchers and institutions to work on the project. This was facilitated considerably by the extensive network of contacts that Dr. González-Vega, other O.S.U. faculty and A.I.D. had previously established in the country through prior work. This was a key element in enabling the project to get the research rapidly underway from the beginning. The close relationships of the O.S.U. team with the Central Bank and Agricultural Bank were also very helpful.

Second, the team has proven very effective in helping identify research topics. And, once the topics were selected, in providing advice and guidance to the researchers, through project personnel, consultants, and other O.S.U. faculty. The publication of an extensive Annotated Bibliography on Agricultural Credit and Rural Savings: IX (A Special Issue on the Dominican Republic), in July 1984 by the Agricultural Finance Program at Ohio State University, provided a good reference to prior work.

Third, the O.S.U. team, realizing the strong interrelationships between rural financial markets and general financial and foreign exchange markets and taking advantage of the current Dominican economic crisis, has encouraged research on questions of these relationships, especially at the Central Bank, where it will be readily accessible to policymakers. In a sense, this has broadened the breadth of the RSMP. This effort is very justifiable in order to get at central policy issues that impact on the performance of financial markets. The results have been persuasive in indicating the need for financial reform in the country. Furthermore, they have been well received, especially in the Central Bank. Perhaps, they will lead to yet another and larger role for the O.S.U. team in the second year of the project.

Fourth, the O.S.U. team worked effectively with the Central Bank in putting together the two workshops, which involved major organizational and logistical effort.

Fifth, the O.S.U. team invited two Dominicans, Dr. Arturo Martínez-Moya, Technical Manager of the Central Bank, and Dr. Andrés Dauhajre, Director of the Applied Economics Master's Program at the Catholic University in Santo Domingo, to participate in the major conference, "Financial Crisis, Foreign assistance, and Domestic Resource Mobilization in the Caribbean Basin," held at Ohio State University in April 30 to May 1, 1984. Both contributed papers on the Dominican experience.

Sixth, the O.S.U. team has been effective in introducing knowledge of and bibliographic references to research on similar topics in less-developed countries. Much of this work was undertaken within the O.S.U./A.I.D. Cooperative Agreement. Dr. González-Vega, Mr. Jeff Poyo, the outside consultants and the participating O.S.U. faculty have all had extensive experience in other countries and have shared this knowledge with the Dominicans. A contributing factor has been the O.S.U. Studies in Rural Finance series, that publishes the research resulting from Cooperative Agreement activity and more.

Once the various components of the Dominican research effort are in publishable form, it is expected that they will be included in this series, and therefore available to a much larger foreign audience. Some of the work should eventually be published in professional journals.

Seventh, as of the end of October 1984, a total of fifty-four research-related papers and documents (see Appendix "D") had been prepared under the RSMP. This in itself is an indicator of the extent of work on the project.

In summary, the O.S.U. team was not only successful in initiating a broad-scale and relevant research program, but also demonstrated considerable skill in undertaking the effort. Apart from the O.S.U. team, long-term O.S.U. faculty involvement has been limited to Dr. Cuevas and one consultant, Dr. James Zinzer, who has played an important role. Although it was argued that the researchers might be in need of more technical assistance in their investigative efforts, it is credit to the project that the main thrust of the work has been done by Dominicans. In this manner, the project stands a much better chance of leaving behind a Dominican research capability when it is finished.

Potential Second-Year Problems

Although the first generation problems of getting the research effort started have largely been solved there are several second generation problems that need to be addressed in the final year of the project.

First, it is unrealistic to expect the new projects, selected from those presented at the 1984 workshop, to get well underway until the others are more nearly completed in those cases where they were proposed by persons heavily involved in research on the uncompleted projects. This will need to be taken into consideration in evaluating the second-year effort.

Second, more attention needs to be directed to institutionalizing the research effort, especially in the universities. This may require project personnel working more with the universities to promote this effort. Increased attention should also be directed to developing more program/project evaluation capacity in the BAGRICOLA. This is important for internal analysis of their operations.

Third, in order to get the most out of the research effort, additional technical advice should be provided to the Dominican researchers where needed. In addition, funding should be made available to hire capable research assistants, to relieve the professors of doing menial and time-consuming tasks.

Fourth, efforts must be directed to developing a Dominican place for publishing the research results in order that they get the attention they deserve among researchers, students, and policymakers in the nation.

Finally, it is clear the the research dimension of the project will require more than a two-year effort in order to establish firmly a long-term capability built upon a strong institutional commitment and base. A.I.D. planning should consider mechanisms to do this as a follow-on to the project.

E. Project Structure and its Implications

The Rural Savings Mobilization Project has evolved from a self contained package of resources sufficient within itself to support limited project objectives to a more open-ended effort taking advantage of opportunities and coping effectively with unanticipated operational difficulties. RSMP weaves together resources from a number of sources in support of activities which produce results of several kinds: research reports; new banking services in BAGRICOLA (and the policy, managerial, and physical changes necessary to provide and support those services); changes similar in kind although less complex in certain cooperatives; and a process of information dissemination in support of a policy dialog on a range of financial policies in the Dominican public and private sector. The activity draws dollar resources from USAID/DR and AID/W through the S&T/RAD Rural Savings for Capital Mobilization Project (936-5315); PL-480 local currency generations from the GODR; staff and financial resources of the Central Bank, BAGRICOLA, a number of Dominican and American academic institutions, and four credit unions. USAID/DR and the Central Bank are to be complemented for a skillful job of orchestrating this complex effort.

This is an intellectually, politically, and developmentally ambitious project with low but relatively complex funding arrangements, a large cast of characters and institutions, and a need for high energy, participatory, non-directive management. The funding structure is reflected in the following table:

Dollars	-	USAID/DR direct and through the S&T/RAD Cooperative Agreement
Dollars	-	ST/RAD
Pesos	-	PL 480
Pesos	-	Central Bank
Pesos	-	BAGRICOLA

Under this arrangement, dollars are managed by USAID; S&T/RAD; and Ohio State University under the S&T Cooperative Agreement. PL-480 local currency generations are managed by the Central Bank; and the key Dominican participating organizations manage their own contributions of staff time and other resources to research and, in the case of BAGRICOLA and individual cooperatives involved, to savings mobilization operations. There is no central managerial control. The evaluators do not believe that unitary control is essential for the project in its current form. However, the current arrangement creates burdens of coordination and paperwork which complicates project implementation. It is useful to consider the following discussion of operational problems in light of these structural and financial considerations. In particular, it would seem that the considerable effort involved in arranging to draw resources into the project from sources outside the project itself might be relieved by authorizing a broader project effort with identified resources adequate to the expanded task.

IV. OVERALL PERFORMANCE ASSESSMENT

A. Some Quantitative Measures of Project Performance

The assessment of project performance with a view to recommendations for follow-on activities requires an examination not only of progress toward stated objectives but also of the cost-effectiveness of the procedures used to pursue those objectives. It is not feasible to make a definitive quantitative assessment of project accomplishments to date simply because of the current still early stage of implementation of crucial operations. We can, however, document quantitative evidence tending to support the observations of many knowledgeable observers and project participants that considerable progress has been made.

The following table summarizes selected material relating to project accomplishments to date.

Activity	Results to date
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A. BAGRICOLA

1. Internal organization for savings activities has been established and a three person full time staff committed to the savings mobilization program
2. Branches taking savings deposits - twenty as of December 15, 1984
3. Amounts deposited as of December 15, 1984 - \$RD2,827,000

B. Cooperatives

1. Cooperatives to which TA provided - four
2. Accounting systems installed - one
3. Coops taking savings deposits - one

4. Savings mobilized as of 12-31-84, RD\$227,158.
5. Dominicans trained to provide relevant TA to coops - two
6. Dominicans partially trained to provide TA to coops - one

Research

1. Studies proposed by Dominicans - twenty
2. Studies financed by project
3. Studies completed and presented for review
4. Studies published
5. Number of Dominican institutions participating in research
6. Number of Dominican professionals participating in research

Dissemination

1. Workshops presented - three (including one during project development)
2. Number of workshop participants
3. Number of Dominican institutions represented at workshops
4. Project funds expended as of E.

With respect to costs and cost effectiveness, several detailed cost analyses were prepared by OSU and the Central Bank. Selected data drawing on this material is summarized in the following table:

Category of Expense	Amount	Source Mission	S&T/RAD
<u>Dollars</u>			
1. OSU professional	\$33.5	\$18.5	\$15
2. OSU in-country (Poyo)	33.	33.	
3. Dominican research associates	6.	6.	
4. Non-OSU consultants	21	21.	
5. Travel	31	11	20
airfare 13			
per diem 18			
6. Workshop costs	5.		
 Total Dollars	 236	 142.5	 93.5

Consultant trips (1983-84): 28

Local Currency (All Amounts \$RD thousands)

	Amount	Source:	PL 480	Dominican
Technical assistance	59		26	33
BAGRICOLA	25			25
Coops.	34		26	8
Research	130		91	39
Dissemination	54		42	12
General Administrative	100		51	49
Other	22		22	
Total Local Currency	<u>365</u>		<u>258</u>	<u>166</u>

Contributions of Dominican Institutions to the Project as of October 15, 1984 are estimated by the Central Bank as follows:

Central Bank	\$RD 42,000
Agricultural Bank	60,000
FEDOCOOP	15,000
UCAMAIMA, ISA, INTEC	16,000

To the total institutional contribution of \$RD 133,000 should be added the considerable contribution in terms of uncompensated working time given to the Project by individual Dominican researchers, financial institution officers, and cooperative members.

B. Major Conclusions

The evaluators draw the following overall conclusions:

With respect to project performance and results:

1. Project implementation is well underway with exceptionally optimistic prospects in the BAGRICOLA and Research components. Implementation of the Credit Union component reflects a less optimistic picture to date. In some respects, the most important results of RSMP may lie beyond the bounds of the original project concept with its largely "rural" orientation. RSMP has generated reexamination of concerns which extend to the nation's financial system as a whole.
2. Dominican commitment to the project and performance in its implementation are excellent. Especially noteworthy are the efforts of the Central Bank and BAGRICOLA. In addition to the institutional commitment of Dominican

organizations, the project has achieved considerable success in attracting participation of individual Dominican professionals in research, policy dialogue, and operations in financial institutions.

3. The project has been exceptionally effective as an instrument of policy dialogue. Even if substantive results do not ultimately meet hopes and expectations, the process itself is an accomplishment in that it demonstrates how effective in-depth policy dialogue can be promoted on complex and controversial issues. The combination of public discussion, research by Dominican investigators, and operational innovation by Dominican institutions -- all supported and encouraged by flexible technical assistance and financing arrangements -- is a powerful model for assistance. Especially is this the case because defects in the policy environment are considered to be crucial constraints to achieving significant national development objectives. All persons and institutions involved are to be complimented for the intellectual maturity of the process model and its implementation.

4. The scope and rapidity of development of the BAGRICOLA savings mobilization component has clearly outrun the modestly stated objectives of the project design which called for a "pilot" or "experimental" effort. While this performance is most encouraging, it raises questions about how well the implications, especially the internal institutional implications of the savings mobilization effort are understood. It also raises questions about the adequacy of resources available to deal with the institutional consequences of savings mobilization and related operations including management policy, training, physical facilities, information systems and the like.

5. The Credit Union component of the project presents some serious issues. The component got off to a slow start. Some effort was expended in identifying organizations whose level of administrative development offered reasonable prospects for effective savings mobilization. Considerably more technical effort was required to prepare the subject organizations to handle savings deposits. The work completed to date may well have been sufficient to bring at least one of the coops involved to an adequate level of competence. An on-site interview with coop management and review of the accounting system installed under the project suggests that the effort has been successful in the La Vega credit union case. But serious questions remain open:

- Has a replicable technical assistance model been developed for assistance to coops and credit unions willing to undertake savings mobilization? An accounting system has been developed and training has been provided to two Dominicans. We see the effort so far as useful and promising research the wider applicability of which is yet to be demonstrated.
- Given the problems faced by FEDOCOOP, is there an institutional base available within which technical assistance for coop saving mobilization can be positioned?

The credit union component presents a challenge to evaluation as well as management. We are compelled to say that while other components of RSMP appear to be well seated and have strong Dominican leadership, the Credit Union component gives the outward appearance of an relatively high cost, low-pay-off operation which lacks a clear institutional home and a demonstrated replication potential. On the other hand, this component started slowly, had less senior level attention paid to it, suffered seriously from the lack of a suitable institutional base, and nonetheless is producing interesting if necessarily modest results.

The credit union component both requires and deserves close Mission attention in the coming months. If the pilot credit union savings mobilization efforts perform well, the Mission may well have identified a significant and innovative initiative in coop. development. If the results are not encouraging, it may be desirable to consider eliminating the cooperative component of the Project and focusing resources on activities with greater potential for success.

6. The RSMP Project presents a series of challenging management issues. One such issue is whether RSMP has been "too successful" in BAGRICOLA. A strong case can be made for the proposition that savings mobilization is moving too fast in BAGRICOLA and that serious risks are being run by encouraging extensive deposit and lending before the institution is prepared and fully understands the implications of a "new business". Conversely, a strong case can be made that an opportunity for significant change now exists and should be exploited while support exists for important reforms. It appears that BAGRICOLA has made the decision to move ahead for better or worse. USAID can make a difference in determining the ultimate success or failure of this effort by assuring access to sound technical assistance and should do so.

Whether the Mission decides to press the opportunities for significant financial reforms which this project has opened or not, the genie is out of the bottle. Dominicans see the opportunities for domestic savings mobilization inherent in the project concept. BAGRICOLA management has decided to run the risks of aggressive savings mobilization within an institution not previously oriented toward "banking" activity. Assuring adequate technical assistance resources to help the Dominicans deal with unfolding problems and opportunities appears to be not only highly desirable but necessary.

8. The relationship of this Project to wider financial reform initiatives and program objectives of the Mission presents another question for close management consideration. RSMP, a project strongly oriented toward "rural" financial markets has helped to open avenues of possible reform well beyond the strictly rural. But the "rural" objectives of RSMP remain significant in and of themselves. Ideally the Mission will see its way clear to moving forward with a comprehensive financial sector effort which includes continuing efforts to improve the performance of rural financial markets and addresses wider financial reform opportunities.

With respect to the administration of the project:

1. Ohio State University performance in the project has been excellent overall. OSU has mobilized an impressive array of technical assistance resources both from its own staff and outside consultants. The technical assistance effort is perceived to be effective by participants in the project. The assistance provided appears to the evaluators to have been relevant, appropriate, and effective (although effectiveness of TA for the cooperative component cannot yet be judged). OSU appears to have sought outside consulting talent rather than using its internal staff to maximize its revenues from the project. No complaints were heard concerning OSU administration in the project.
2. The OSU approach to providing TA primarily through short visits rather than through senior in-country staffing appears to be effective. Total costs of extensive short-term assistance to date appear to be lower than maintaining a senior professional in-country. The scope of professional services provided is far wider than any one professional in-country could offer. Most country officials did not express complaints about the quality and accessibility of TA when desired. To the contrary, Dominican officials appeared to prefer this support arrangement under which they maintain clear control of the activity (which might have been a problem if a senior advisor was in country full-time). The extensive short-term TA format is expensive but on balance appears to be more effective for the type of project involved than a single senior advisor. With the exception of the Cooperative component, this project places a high priority on intellectual interchange and reliance on Dominican institutions to manage day-to-day implementation. The Dominicans apparently like and profit from short bursts of "high voltage" technical assistance. With respect to the credit union component, long-term in-country TA appears to be essential. In short, the evaluators recommend no change in the technical assistance delivery system of the project in its current form.
3. The evaluators closely examined OSU-Dominican institution links and the role and effectiveness of the key participants. There do not appear to be any problems requiring immediate managerial attention. A few minor issues surfaced but were promptly addressed, apparently effectively, by the individuals involved.

It might be noted that the structure of the project fairly begs for communications problems. The administrative complexity, the short visit, "high voltage" TA delivery mechanism, and other factors are a fertile field for irritation and misunderstanding. That there has been so little difficulty and that of such a peripheral nature is a tribute to all concerned. There does not appear to be an operationally significant communications problem as of this writing.

4. Support from the S&T/RAD Cooperative Agreement project "Rural Savings for Capital Mobilization" ("RSCM") and its predecessor Cooperative Agreement "Rural Financial Markets" was an essential factor in developing and

implementing this Project. RSCM provided funding and acted as a vehicle through which USAID/DR channeled funds to OSU for project purposes. Further funding from RSCM is now precluded because of the relatively large contribution already made to the Dominican Republic effort. There also appears to be a question as to whether RSCM can function as a vehicle for the channeling of funds to OSU for project purposes. If this is the case, the Mission may be forced into an early decision on "projectizing" a follow-on to RSM for administrative reasons.

As the cooperative agreement concept in relevant part is currently subject to criticism in AID/W and may be eliminated as a support mechanism, consideration should be given by AID/W as to how this type of support can be obtained by missions in the future. It is highly unlikely that the mission could have undertaken the effort represented by this project without a flexible support mechanism such as the OSU Cooperative Agreement. Nor is it clear that the specialized technical assistance capability utilized in the project would have been available but for the existence of cooperative agreements helping to develop and maintain "centers of excellence" such as the OSU financial markets program. It is extremely difficult for USAID missions to initiate programming in new and sophisticated technical areas without a transitional support mechanism such as the cooperative agreement device.

5. The Mission has maintained a relatively low profile in the implementation of this Project. On balance, this approach appears to have been sound. However, a number of project participants expressed the desire that USAID's well-respected project manager become more involved in the project at this time. Deeper USAID involvement might well strengthen the hand of technocrats and facilitate operations. Given that consideration should be given to changes in this Project and the possibility of the development of a new project, a deeper USAID involvement would appear to be desirable at this point.

Several specific recommendations for changes in RSMP during the balance of life of the project are discussed in V A below.

V. RECOMMENDATIONS FOR FOLLOW-ON ACTIVITIES

The primary recommendation of the evaluators is that the Mission should indeed follow up on RSMP and continue to work in the field of financial sector reform in the Dominican Republic. The ideal approach would be a comprehensive financial sector development program incorporating suggestions discussed below. But if a comprehensive program is not feasible, then one or several of the approaches described are well worth addressing individually. The precise approach adopted is less important than the decision to continue to build on the RSMP and related Mission efforts in recent years.

This general recommendation is based on the following observations:

1. The financial sector is not only important economically but it is relatively sophisticated; institutionally diverse; and open to innovative and entrepreneurial activity. The possibility exists that the financial sector could be a leading developmental sector rather than a problem area.
2. Both competence and interest in development relevant reform exist within the GODR, especially in the Central Bank. There appears to be a receptivity to sophisticated technical assistance and considerable administrative skill in implementation of innovative programs both in the Central Bank and BAGRICOLA.
3. There appear to be many private firms and individuals in the Dominican Republic capable of creating and managing innovative financial approaches to solving development problems.
4. RSMP offers a model for policy dialogue in the financial sector which is both effective and acceptable to the Dominicans who have demonstrated an ability to seize on technical ideas and turn them into practical operations.
5. The potential payoff of significant financial sector reforms is very high and justifies the patient cultivation of key institutions and people in the sector over an extended period of time. Until such major payoffs become possible, even minor improvements can be sufficiently significant to justify USAID attention. In short, the financial sector is a good place for USAID to be active.

The specific recommendations of this evaluation fall into five general categories:

1. Completion of RSMP
2. A comprehensive Financial Markets Development Project
3. Financial sector information, analysis, and planning
4. Institutional development within BAGRICOLA
5. New approaches to base level financial services

Recommendations in "Completion of RSMP" are limited to the current project and its immediate problems. A number of additional suggestions for extension of RSMP initiatives are made in subsequent sections. The follow-on activities (2-5) are not mutually exclusive. To the contrary, the more comprehensive the effort, the better the chances of accomplishing broad-based changes. But each is worth undertaking separately even if the other activities are not carried out at this time.

A. Completion of RSMP

RSMP has achieved some notable results in its first year of implementation. It has also encountered some problems several of which the Mission has already addressed. Most important, RSMP has become a vehicle for strong Dominican managerial and intellectual leadership. The project should be completed and follow-on activities (discussed below) initiated.

Specific problems of RSMP were discussed in detail in earlier sections. A few important adjustments which will be desirable are summarized here. Generally, these are "second generation" problems - consequences of achieving "first generation" objectives.

1. BAGRICOLA

USAID should assure access by BAGRICOLA to technical assistance services in order to monitor progress of the savings mobilization effort and its impact on bank operations and in order to continue close advisory support to BAGRICOLA officials on key banking management issues. Preferably such additional assistance would be provided in the context of a transition to a broader BAGRICOLA institutional development project such as that discussed below in section V D.

2. Credit Unions

The question of identifying an institutional base for the credit union activity should be resolved as soon as possible. Results of the work done in the four pilot credit unions should be monitored for a number of months before replication is undertaken. This would, in effect, preclude new credit union activity within the current time frame of RSMP. Planning follow-on credit union assistance activities should be initiated in the context of new project activity as discussed in V E below.

3. Research

Additional local currency resources should be made available to Dominican researchers to help finish research projects and provide incentives for new research initiatives. Local currency funding should also be made available to an appropriate Dominican institution to publish research results and to provide a forum for written discussion of financial markets issues. A small amount of dollar financing should be made available to assure Dominican researchers access to U.S. technical advice on research problems. Again, research support and arrangements for training Dominicans in financial markets disciplines should be incorporated in any follow-on project.

4. Financing Implications of Termination of S&T/RAD Funding

Additional funding for RSMP cannot be expected from the S&T/RAD Cooperative Agreement according to AID/W sources. This has been an important source of support for the RSMP effort. The S&T Cooperative Agreement provided funding at a level of \$93,500 to date to complement the Mission's \$142,500 dollar commitment. Thus, attention must be addressed both to financial planning and funding mechanisms for the balance of this Project.

5. Summary

The rapid development of the BAGRICOLA effort and the slow development of the credit union effort suggest that the RSMP design has been superceded by implementation experience, a wholly appropriate outcome of an experimental project. The evaluators recommend developing a new project which would follow on immediately after the planned FY 1985 termination date of this Project (see below). In that connection, the Mission should consider a small augmentation of RSMP funding to sustain the project's momentum during the transition from RSMP to a larger follow-on project.

If a major follow on effort is not feasible immediately and given that further funding will not be available through the S&T/RAD Cooperative Agreement, the Mission may wish to consider whether a somewhat larger augmentation of RSMP effected through a project amendment may be the appropriate vehicle to sustain RSMP activities for the near term.

Finally, if the Mission does not wish to undertake a new, follow-on project, resources and objectives of this Rural Savings Mobilization Project should be reexamined as soon as possible with a view to preserving resources to maintain the more successful initiatives of the Project even at a low level of activity.

B. A Comprehensive Financial Markets Development Project

The evaluators recommend early mission consideration of a comprehensive financial sector reform project. Evolving circumstances in the Dominican economy combined with the opportunities for policy dialogue and innovation generated by RSMP may make a thorough reexamination of financial sector policy and institutional development feasible. One cannot predict the outcome of a process of policy analysis and dialogue; however, even modest policy changes in financial policy can yield great dividends.

The recommendation to address financial sector issues comprehensively is grounded on several considerations:

First, more effective mobilization of domestic financial resources is essential to Dominican development in general and to private sector development in particular. To this end, significant policy and institutional reforms in the financial sector are of fundamental importance. Policy and institutional incentives must be aligned in ways which encourage rather than discourage mobilization of resources for investment in the Dominican Republic.

Second, the very difficulty of the current situation may make conditions ripe for serious examination of policy and institutional issues. Third, the complex interaction of policy and institutional behavior which characterize the financial sector is difficult to change piecemeal. It is possible that a comprehensive approach, while difficult, may have a better chance to be effective than a narrower approach.

The core problems appear to be:

1. GODR financial policy and the policy making process (including and especially interest rates) which generate disincentives to achievement of development objectives;
2. An imbalance in financial institutional capability between institutions serving urban and rural interests (which probably reflects in significant measure the relative lack of profitability of agriculture itself); between commercial banking and other interests; and between investment and other functions;
3. An agricultural bank which has in the past generally functioned as an agency to transact transfer payments rather than as a banking institution;
4. A paucity of efficient small financial organizations (such as cooperatives and credit unions) to mediate between most lower income people and the formal banking system;
5. A common failure of financial institutions to exploit new technology and managerial methods to lower costs and improve performance.
6. An inability to exploit for support of Dominican development objectives the financial opportunities offered by easy access to U.S. financial markets and large numbers of Dominicans living in the U.S.

The ultimate objective of a comprehensive financial sector development project would be a national financial market which would encourage a free flow of resources to the most productive uses which in turn would generate the greatest benefits to the economy overall. In the near term, however, the purpose would be a relatively modest one of designing a framework within which policy planners and institutional managers can define their plans and objectives for financial policy and institutional reform. This framework would be, in essence, a system of indicative planning within which responsible officials can make plans in light of reasonable expectations of the plans and intentions of other responsible officials.

Supporting the development of this framework would be a comprehensive process of planning for the financial sector including the gathering of data, research and policy analysis, and development of individual project activities to assist the institutional development process. This process would build on the considerable work already done in this area and help to rationalize and focus knowledge and interest in the field.

The process would begin with the design of an overall program. Either all or selected portions of the overall program would be "projectized" by USAID (or other donors or the GODR with its own resources). Depending on the availability of resources and other factors, the program could be implemented in its entirety immediately or in parts over time. But a comprehensive

planning process would help assure that the pieces (and especially the policies) fit together, the data is gathered and analyzed efficiently, and that expectations are clear.

Some of the individual parts of a comprehensive program are discussed below. The individual components suitably revised can also be viewed as "stand-alone" projects.

C. Financial Sector Information, Analysis, and Planning

RSMP provides a useful model of research and policy dialogue which could well be expanded to promote broader financial sector reform objectives preferably within a comprehensive sector program but also very usefully as an independent follow-on and expansion of the RSMP concept.

A research and policy analysis program could be structured with the following characteristics:

1. Central bank management.
2. Research conducted by numerous professionals in Dominican institutions (but with more generous support than has been available under RSMP).
3. Technical support provided by U.S. professionals in conjunction with experts from other Latin American countries.
4. Public policy dialogue carried out through the medium of open workshops and forums; publication of articles by program participants; and, perhaps, other forms of information dissemination.
5. Establishment of an academic center for the study of financial markets in a major Dominican university.
6. Access to a wide range of technical assistance in banking and financial institution management. The modernization of financial institutions can not only add to profitability and competitiveness but also encourage attitudinal changes which may be crucial to improving service to agriculture, to less wealthy customers, and to other groups in the society needing better financial services than are now available.

The foregoing program can be cast in terms of a continuation of in-depth policy dialogue, an adjunct to other Mission policy analysis work, or as a stand-alone extension of RSMP. Ideally, it would be a component of a broader program supporting extensions of the operational elements of RSMP.

D. Institutional Development in BAGRICOLA

BAGRICOLA must evolve into a more effective financial institution to support agriculture and rural development in the Dominican Republic. BAGRICOLA cannot continue to function as a mere transfer agent of the GODR and

international donors if the institution is to play a significant role in mobilizing domestic resources for agriculture. RSMP has encouraged a major step forward toward a much invigorated BAGRICOLA. This development should be supported and the real opportunities for institutional change now open should be exploited. At the same time, it must be recognized that some of the traditional "transfer agent" functions of BAGRICOLA are unlikely to be fully displaced for some period of time. The problem is one of how to encourage development in new directions while maintaining (and if possible improving) the still essential traditional functions.

We suggest that consideration be given to a transitional institutional development project in BAGRICOLA which promotes restructuring of BAGRICOLA into a "Rural Finance Agency" of GODR which would carry out both new and residual functions. The new agency would have three separate functions each carried out within separate organizational units. The three major functions would include:

1. "Banking" in the sense of buying and selling money in the market as BAGRICOLA is now undertaking under RSMP.
2. Special credit and (in cooperation with SEA) related technical assistance programs of international organizations; and,
3. Agrarian reform and other transfer payment type financing operations;

Each function would be carried out under independent managerial units within the agency. At the branch level, these functions would be carried out through different "windows" with, insofar as practicable, different employees. Where economically feasible, the functions would be carried out in different offices with different managers. To the extent that branch managers would be responsible for different functions in one office, training would assure a thorough understanding of the very different objectives and problems associated with each function and the different managerial approaches required for each.

An AID project would provide technical assistance and some commodity assistance for computerization, improved communications, and other facility improvements. TA would address management issues including information systems; personnel implications of "banking for profit" (such as incentives); decentralization of decision making and making branches profit centers; methods of working more effectively with the private sector including co-financing and risk sharing with commercial banks; and developing practical techniques for dealing with the business/ farming community with its peculiar characteristics such as extended families, multiple incomes, and the "U.S. connection". A central concern of this project would be promotion of private sector financial support of commercial agriculture, a process which may require differential (but shared) risk taking by BAGRICOLA.

A strong research and policy analysis unit within BAGRICOLA would lend weight to the Bank's participation in policy dialogue on issues such as interest rate policy, encouraging "promotion" of rural people with established credit to commercial sector borrowing, and development of special BAGRICOLA functions such as wholesale banking for new and existing small financial organizations. There are research issues of considerable interest which such a unit might be encouraged to pursue. For example, the financial "reach" of many less wealthy Dominicans may be, at least in the aggregate, substantial. Developing practical means to facilitate access to Dominican owned or controlled wealth and income in the United States and domestic assets such as rural land may offer opportunities for mobilization of savings beyond those afforded solely by raising interest on deposits. Development of such possibilities requires technical skills and a sensitivity to private enterprise viewpoints. But if a firmer common ground between public interest in development and private interest in profit and security can be found, considerable resources not now available can be called into the Dominican development process.

Consideration should be given to BAGRICOLA playing a technical support role to financial services groups such as credit unions, cooperatives, and similar organizations when and if it proves to be impossible for traditional support organizations such as federations to function effectively. BAGRICOLA might also be considered as an institutional base for financial education services including financial advice and training for rural people of moderate and low income.

An area of particular importance is the need to explore whether computer technology offers opportunities for decisive changes in the institution and in rural finance in general. In the past, agricultural lending costs have been high for a number of reasons including geographic dispersion of customers, inadequate decentralization (procedures and personnel issues), and lack of modern equipment, as well as default and late payment. The rapid advance of computer technology and applications to various financial operations may now permit a fundamental breakthrough in BAGRICOLA administration problems. While we understand that there is some technical assistance being offered in this connection, it would seem desirable to consider examining bank management in all its ramifications in light of new technological possibilities.

E. New Approaches to Base Level Financial Services

The problem of financial intermediation and services for people of modest means has been a continuing development concern literally for decades. While many successes have been recorded in individual situations, a generalized approach to helping organize the financial resources of large numbers of relatively poorer people has proven elusive. The problem seems to escape solution and yet is too important to abandon. The logic of establishing federations of cooperatives and credit unions to provide an institutional core and various necessary services to member organizations would seem compelling.

Yet experience demonstrates that such "umbrella" organizations tend not to be viable for extended periods of time in the absence of continuing donor support. Unfortunately, the Dominican Republic offers an example of this phenomenon.

Rethinking this problem and experimenting with new alternatives to its solution deserves serious attention in the Dominican Republic. In theory, there are a number of alternatives available to the Mission to help develop financial services for people outside the commercial banking system:

1. Try once again to develop credit unions and cooperatives through development of umbrella organizations which offer credit and promotional and technical services to member base level organizations;
2. Provide technical assistance directly to base level organizations;
3. Finance training of individuals who will provide services directly to base level organizations;
4. Induce public banking organizations, such as BAGRICOLA, to provide technical and financial services to base level organizations;
5. Offer incentives to private profit and non-profit organizations to provide technical and perhaps financial services;
6. Work with base level organizations and lower income individuals to "join" the commercial banking constituency (in the manner of the ADEMI program);

Each approach has its peculiar disadvantages such as high cost per individual served, high transaction costs to the institutions involved; interest rate limitations on profitability; and so forth. However, the ADEMI experience and the reinvigoration of the four pilot credit unions under RSMP suggest that effective solutions can be identified and implemented.

RSMP quite by chance presents a somewhat different model for base level financial organization development than commonly seen. Typically, such projects provide considerable assistance for institutional development to cooperative federations or other umbrella groups designed to provide technical and financial assistance to base level member groups. The federation level assistance is expensive and often is not rewarded by development of a permanent, financially viable support institution. Alas, RSMP encountered precisely this difficulty. Wisely, it would seem to the evaluators, the Mission decided to push ahead with direct assistance at the base level organization level rather than try to deal with seemingly insurmountable problems at the Federation level.

Assistance provided from RSMP was focused on four credit unions. Direct technical assistance was provided under the project to the base level organizations. Obviously the cost of assistance to these four credit unions was high. Direct expatriate technical assistance should not be replicated in its current form. But if Dominicans can be trained to do what the OSU in-country advisors did, the costs may not prove to be excessive for wide replication.

It may be worthwhile to try to build on this experience in a follow-on project. In essence, the proposed approach to technical assistance delivery would be a private enterprise, "consulting" model. It would focus on helping base level organizations (such as credit unions) to achieve financial competence. The model eschews umbrella organization support. Assistance would be provided by individual Dominican consultants, not by an organization.

The individual Dominican consultants would be drawn from professional backgrounds and trained to provide services to client base level organizations such as:

1. Explain to base level organization members the reasoning behind savings mobilization, higher interest rates for savings and for lending, and related concerns;
2. Install bookkeeping systems to support internal accounting requirements; and,
3. Assist base level organizations in establishing financial connections with banking organizations (including commercial banks as well as BAGRICOLA);
4. Consideration might also be given to consultants providing some other information, support, and technical assistance functions commonly provided through federations and similar umbrella organizations.

Consultants would be paid in part by the base level organization and in part from small grants provided by an appropriate Dominican organization (BAGRICOLA, for example). The base level organization would be free to dismiss a consultant with whom it was dissatisfied. Consultants would be free to accept or reject offers of employment from particular base level organizations.

Training and organizational support for the Dominican consultants carrying out these functions would be centered in an existing financial institution. BAGRICOLA would be the ideal candidate. But that institutional function would be limited to providing support and evaluating performance of the individual consultants. BAGRICOLA would not be responsible for the success or failure of the consultants or the base level organizations.

Promotion of new base level organizations would not be encouraged until a substantial number of existing organizations are assisted to more effective levels of performance.

A number of other experimental approaches to financial services for the less well off might be considered besides the "consultant-base level organization" model. The following suggestions merely identify interesting possibilities which have come to the evaluators' attention rather than an effort to catalogue the many possibilities worth exploring:

1. Promote activities which draw lower income people into existing financial institutions. It would seem that the best way to lower transactions costs is to use the institutional infrastructure of the banking community. But will banks lend to the poor? The establishment of credit is an important asset for people outside the formal financial system. In this connection, the ADEMI program offers a number of lessons well worth following up.

2. In some countries use of "agricultural credit" for non-agricultural-production uses has been source of concern. Perhaps this is not only unavoidable but desirable. An experiment might be based on facilitating lending to extended families or other self-selected groups as an economic enterprise. Income and assets of the group would generate a base for borrowing for productive purposes not limited by sector.

3. Approach financial services from an educational viewpoint. Use the formal education system as a vehicle to provide training both to students and parents in the use and understanding of money and its management. Support development of training programs in financial skills at school and university levels. Promote credit unions in schools as a practical method for exposing students to financial experience.

4. Consider a small project to examine problems and opportunities in financing rural land transactions

RSMP has evolved in ways which suggest that a revision of the project will be desirable and perhaps necessary in the near future in any event. The BAGRICOLA savings mobilization component has moved faster than expected. The Credit Union component requires restructuring because of the need for an adequate institutional base. The policy dialogue implications of the research and dissemination activities have probably exceeded expectations. The role of the S&T/RAD cooperative agreement in supporting future RSMP activities is unclear. For all these reasons, consideration of designing follow-on activities now seems timely and approaching the problem comprehensively preferable.

F. The Role of Credit in AID Financial Sector Projects

Should follow-on AID Projects incorporate large components for agricultural credit? Cheap credit from governments and donors has been identified as a major cause of rural financial market dysfunction. A strong argument can be made that the availability of cheap credit has helped to make it possible for governments to maintain poor policies which result in unprofitable agriculture and a host of other economic and social problems. On the other hand, farmers need money to produce and to live. When such money is made available through donors and governments, certain ambiguities may emerge concerning perceptions of the nature of the transaction through which access to the funds is provided. Donors tend to think of such monies as "credit" and expect farmers to repay the "debt". Farmers may think of such monies as "credit" (and repay) if they can make a profit and can expect access to such

monies in the future. However, farmers may think of such monies as something other than "credit" (and not repay) if they cannot make a profit or do not expect access to such monies in the future. This difference in perception was often in part resolved by providing money at below market interest rates. But subsidized credit commonly did not result in profitable agriculture, often much of the "money" did not reach the intended beneficiaries, and the effort to use "credit" to accomplish various economic and social objectives was seen to lead to systemic problems in the financial system ultimately redounding to the harm of the farmers themselves, a classic vicious cycle.

The farmers' immediate need for money is Banquo's ghost at the table of financial policy and institutional reform. Substantial infusions of credit to help meet farmers' current needs are desired and probably expected. But the anomaly of promoting financial policy reforms while offering "the hair of the dog that bit..." (the financial sector)" is obvious.

It seems to at least one evaluator that the core issue in agricultural credit is not interest rates but the lack of profitability in Dominican agriculture. Until the policies and the system of access to inputs and markets which make agriculture profitable are in place, donor and government "money" may not be viewed as "credit" (in the sense of funds borrowed with the intention of investment and repayment).

In considering how to deal with GOH expectations and needs for AID funding for financial sector operations beyond technical assistance and commodities for institutional improvements, the Mission might wish to consider an explicit distinction between:

- a. Money for "credit" to encourage profitable agriculture
- b. Money for contingent transfer payments to farmers for defined economic, social, or political objectives

Financing "b." may well be essential for various reasons until the policy and institutional structure of the agricultural and financial sectors are in sound condition. But the process of reforming financial policy and institutions should not be carried out as an operational adjunct of effecting transfer payments in the guise of credit. Conversely, to the extent that "b" type financial operations take place, they should be clearly identified as transitional, related only to current economic difficulties, and with every effort made to limit its now well understood baneful effects.

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RURAL SAVINGS MOBILIZATION
IN THE DOMINICAN REPUBLIC

PRELIMINARY NOTES ON THE
EVALUATION AND FOLLOW-ON

Claudio González Vega
March 27, 1985

The OSU team is very pleased with the recognition of the achievements of the Rural Savings Mobilization Project (RSMP) and the favorable comments included in the Blankstein-Ladman evaluation and finds their recommendations useful and encouraging.

These notes provide a preliminary reaction to the evaluation report and sketch a request for a one-year extension of the present project, given available resources and present circumstances. There is room for several additional activities related to the financial sector, over several years, and we expect to continue negotiations with the Mission about the extent and scope of these other fields of potential OSU involvement.

The evaluation report contains information on the RSMP's activities through October, 1984 (The first year). These notes emphasize actions and achievements through March, 1985, reporting on several new developments of importance.

I. BANCO AGRICOLA

To date, achievements at Banco Agrícola can be summarized as follows:

1. Establishment of a deposit mobilization unit, with a full-time staff of 5 persons. These persons are committed to the RSMP and have effectively in the design and implementation of the mobilization campaigns.

2. As of January 31, 1985, the Banco Agrícola had mobilized DR\$3,165,194 at 21 of its branches.

3. Several of the second-generation problems identified in the October (1984) Progress Report are being dealt with. These corrective measures imply direct or indirect OSU-RSMP involvement in the following:

a. Design of a new set of forms for reporting data on loans and deposits.

b. Design of computing programs (software) for the new flows of information. (a) and (b) are expected to reduce paperwork by about 60 percent.

c. Organization changes in the Computing Department, for a more efficient management of information flows.

d. A new system of portfolio classification to generate information required to keep track of delinquency (actual and potential).

e. A new set of delinquency indicators.

f. A new system of client classification for loan evaluation and follow up.

g. Establishment of uniform rules, criteria and indicators for all clients (regular and agrarian reform) with respect to interest rates, loan follow-up and collection, and accounting systems.

h. A new structure of interest rates (12 per cent per annum plus 6 per cent commision).

i. Introduction of micro-computers in an experimental basis, for management and data flows.

j. Staff training. Most important among these activities was the three-day Jarabacoa Workshop (November 29-December 1), attended by 120 officials, including several Board Members, the General Administrator, his Deputy, all Department Heads, Branch Managers and Deputy Managers.

k. Asset Management. The mobilization of local funds has forced the bank to develop a new attitude and new lending criteria.

As originally designed, the RSMP called for savings campaigns at four branches, on a pilot basis. It was expected that deposit mobilization would eventually force the bank to face several of its deficiencies, while new problems, associated with the mobilization activities, would have had to be dealt with. Given the expected small dimensions of the pilot activities, these "second generation" problems would be contained and manageable.

Actual mobilization activities at Banco Agrícola have substantially outrun the modest targets stated in the original project design. While continuously cautioning the bank's management about the dangers of too rapid and expansion of the mobilization activities, the OSU team has taken advantage of the opportunities provided by the institution's enthusiasm with the RSMP and has not let the opportunity for major reforms within the bank to pass without seizing it. This, however, has resulted in a larger task than originally anticipated.

Given the much larger magnitude of the RSMP's activities within the bank, the deficiencies have become more constraining and "second generation" problems have been blown up. If some of these problems are not faced immediately (and in a much larger scale than originally envisaged), there is a danger that the effort may collapse.

Change has started in Banco Agrícola too rapidly and on too many front. An institution where no changes took place over many years and where there had been little room for discretionary decision-making, is now facing substantial challenges. Not all of the changes are fully understood, accepted or digested by the bank's staff. While it is clear that the complete institutionalization of the reform necessarily takes time, there is a high degree of fragility of the present accomplishments. The extension of the RSMP is crucial for the consolidation of these reforms.

Originally, the RSMP was designed as a "pilot" effort, to experiment and test, to be followed by a full-scale project, designed on the basis of the lessons learned. The rapid expansion of mobilization activities beyond the "pilot" scale, combined with the lack of follow-on project to be immediately implemented, suggest the need for an extension of the present project (while follow-on activities are defined).

The OSU team has identified several areas that would require attention during the next 18 months:

A. DEVELOPMENT, INSTALLATION, AND FINE TUNNING OF A COMPLETE INFORMATION AND DATA MANAGEMENT SYSTEM.

A deficient information system has become the major bottleneck for further deposit mobilization progress, while the savings activities have overloaded the present system to the point of breakdown. Design of a new system has to be completed and fully implemented to make other changes operational.

B. CHANGES IN ORGANIZATION STRUCTURES AND IN INSTITUTIONAL "CULTURE"

To face new tasks and introduce new procedures the bank requires important organizational changes. Examples of this have been already the reorganization and strengthening of the Programming and Computing Departments and the creation of a Human Resources Management Department. Further changes will be required, particularly associated with decentralization of the institution and improvement of the decision-making process at the branch-manager level. In addition, in order to overcome internal resistance and break long-established habits, motivation activities, training, and the design of appropriate and flexible incentives are required.

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C. CHANGES IN ASSET MANAGEMENT

In order to guarantee the integrity of deposits and to make deposit mobilization profitable, the bank must improve its asset management. By January 31, loans with funds mobilized amounted to DR\$1,851,947, that is, about 58 percent of mobilization agile but safe lending criteria must be determined. Portfolio diversification must also accompany the new flow of resources.

D. ACHIEVEMENT OF COST EFFICIENCY

Funds obtained through deposits from the public are more expensive than the bank's traditional sources of finance. To make deposit mobilization profitable the bank must reduce operational costs. During the following months the RSMP will be heavily involved in measuring transaction costs: the administrative costs of mobilizing deposits and lending costs within the bank, as well as non-interest borrowing costs imposed on clients.

E. DEVELOPMENT OF NEW INSTRUMENTS OF FUNDS MOBILIZATION

The financial system of the Dominican Republic is going through a period of significant changes in environment and regulation and of increasing competition. In order to expand its deposit mobilization activities, the Banco Agrícola needs to improve its competitiveness. The RSMP will continue monitoring the evolution of the markets for deposits and explore ways in which Banco Agrícola may compete more effectively.

II. CREDIT UNIONS

1. Substantial progress has been made since October, 1984 (date of the evaluation). All four credit unions completed their preparation and are now mobilizing deposits.

2. As of January 31, 1985, mobilization amounted to:

Santa Lucía	DR\$ 43,130
San José de Las Matas	20,000
La Vega Real	10,500
Vallejuelo	<u>35,000</u>
T O T A L	<u>DR\$108,630</u>

3. Lending activity has confirmed the existence of a large, unsatisfied demand for credit, even at high interest rates.

4. Less restrictive regulation (e.g., with respect to interest rates) provides opportunities for more innovative experimentation and more flexible adjustments. Lessons learned in this area will be applicable to other private-sector institutions to be developed in the rural areas, such as small private rural banks.

The OSU team will address three major questions with respect to credit unions:

A. INSTITUTIONAL BASE: Given the problems faced by FEDOCOOP, at present the credit union component lacks a stable institutional home. We agree that such a base for the technical assistance input is crucial for success and replicability. The team has initiated fruitful discussions with IDECOOP in search for such a partnership.

B. FINANCIAL LINK: The project's emergency fund has helped with liquidity management. This arrangement, however, is transitory and a permanent lender-of-last-resort and deposit-insurance mechanism must be found for the credit unions. Banco Agrícola may play some of this role and is also a potential candidate for an institutional base.

C. CONSOLIDATION: As with deposit mobilization at Banco Agrícola, the RSMP at the credit unions is vulnerable. Rather than starting operations with new credit unions, the OSU team will concentrate efforts in consolidation and follow-up with the present set of four. The experiment is worth completing.

III. RESEARCH, DISSEMINATION, AND POLICY DIALOGUE

1. Research on financial-system issues has been an effective instrument for policy dialogue and problem-solving innovations in participating institutions. Additional research by OSU and by the most successful Dominican investigators this far sponsored by the project will concentrate on:

- a) The impact of regulations on financial-system performance.
- b) Transactions costs (mobilization, lending, and borrowing costs).
- c) Implementation issues in deposit mobilization programs.

2. Dissemination activities will be substantially increased during the following months. In addition to two more workshops involving most participants in the RSMP (October 85 and October 86), several specific seminars, lectures, and training activities will be undertaken.

3. Publication of research results will constitute a major contribution during the next few months.

4. The RSMP has started to explore the feasibility of establishing private rural banks. Research will investigate the legal framework for the operations and will identify the strength and weaknesses of PROTO-institutions that could eventually be converted. The Central Bank has expressed much interest in this option. Deposit mobilization by other institutions will be examined.

IV. RESOURCES REQUIRED

Deposit mobilization and institution building at Banco Agrícola, the 4 credit unions, and additional institutions, and the research, dissemination, and policy dialogue activities will require substantial OSU technical assistance beyond September 30, 1984. This technical assistance input will make use of the following resources.

1. Long-term (Resident) Advisor:

Jeff Poyo will continue to provide long-term technical assistance. His OSU contract will be extended through October 1, 1986.

2. OSU Project Coordination:

Claudio González Vega will continue as the OSU Coordinator. He will identify the need for specific technical assistance inputs and will secure them through OSU. He will make frequent visits to the D.R. to provide supervision and continuity to the policy dialogue. He will undertake specific technical assistance tasks, as required, and help the Mission in dealing with related issues.

3. Short-term Assistance for Banco Agrícola:

a. Eduardo Montiel will continue to be the main non-resident advisor to Banco Agrícola. Montiel (B.S. Michigan, M.S. Mit, Ph.D. Harvard, Director of Banking Program at INCAE) will design a master plan for the bank's new financial strategy and organizational reforms.

b. Juan Norvick (Ph.D. Berkeley, INCAE) will assist with the development of a data management system. He is an specialist on information systems for banks and an advisor to major private banks in the region.

c. Silvio de Franco (Ph.D. Wisconsin, INCAE) will advise the bank on organizational questions. He will collaborate with:

- Werner Ketelhohn (INCAE) and
- Alvaro Cedefio (Academia de Centro America).

In addition to OSU technical assistance, some local inputs are required:

- i. To continue the services of Luis José Pedemonte, for the installation and operation of computer software.
- ii. To hire an assistant for Mr. Pedemonte.
- iii. To use local private bankers for training. Experiences with Citibank within the project have been very rewarding. The Centro de Estudios Monetarios and ADEMI may also be involved.
- iv. Workshops for bank staff.

4. Monitoring of Credit Unions:

Jerry Ladman will provide assistance to Jeff Poyo on the credit union issue and will monitor progress of this experiment.

5. Research

At the request of the Central Bank, James Zinser will continue his joint research there.

José Alfredo Guerrero and Carlos Cuevas will deal with transaction costs issues. Archibaldo Vásquez will continue research on Savings Mobilization.

Dale Adams and Arnolando Camacho will explore the feasibility of a private rural banking system.

Between October 1st, 1983 and January 31, 1985 OSU spent US\$209,000, while US\$39,725 were also committed. This leaves a balance of US\$112,000 available for the remaining 9 months of the project. Some of these funds (like Poyo's repatriation costs) may be rolled-over for use during the 85-86 fiscal year. It is estimated that additional US\$190,000 will be required for the extension of the OSU contract, while US\$90,000 will be contributed by the Cooperative Agreement.

Additional (optional) Mission expenses may include:

- a) 2-3 microcomputers for Banco Agrícola \$10,000
- b) Software 5,000
- c) 3-week banking course at INCAE (3 bank officials) 10,000
- d) Training at Citibank's Puerto Rico Center 20,000

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FY 85-86 RSMP EXTENSION

ILLUSTRATIVE BUDGET
(OSU-Assistance)

	<u>Mission Funds</u>	<u>Cooperative Agreement</u>
1. <u>SHORT-TERM ASSISTANCE:</u>		
. Claudio González	24,000	24,000
. Other OSU staff	16,000	12,000
. Non-OSU consultants	30,000	12,000
2. <u>LONG-TERM ASSISTANCE:</u>		
. Jeff Poyo	38,000	-
3. <u>INTERNATIONAL TRAVEL:</u>		
. OSU	9,000	7,000
. Non-OSU	10,000	-
4. <u>SERVICES AND MATERIALS:</u>		
Direct Cost	136,000	64,000
Training	10,000	-
Overhead	<u>54,000</u>	<u>27,000</u>
T O T A L	<u>\$ 190,000</u>	<u>\$ 91,000</u>