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

DOMINICAN REPUBLIC

PROJECT PAPER

RURAL SAVINGS MOBILIZATION

AID/LAC/P-163/1

Project Number:517-0179

UNCLASSIFIED

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number
 2

DOCUMENT CODE
 3

COUNTRY/ENTITY
 Dominican Republic

3. PROJECT NUMBER
 517-0179

4. BUREAU/OFFICE
 Latin America and the Caribbean

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

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
 11 23 86

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

A. Initial FY 83 B. Quarter 4 C. Final FY 85

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

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AD Appropriated Total						
(Grant)	250		250	923	27	950
(Loan)						
Other 1.						
U.S. 2.						
Host Country						
Other Donors					394	394
TOTALS	250		250	923	421	1,344

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) FN	240B	043		500		450		950	
(2)									
(3)									
(4)									
TOTALS									

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

246 253

11. SECONDARY PURPOSE CODE
 662

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

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

13. PROJECT PURPOSE (maximum 480 characters)

To improve the viability and efficiency of financial institutions in the rural areas, and expand access of rural population to financial services.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
 11 8 84 11 8 86

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

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

Increase the amount of grant funding, change the definition of the Project and extend the PACD.

17. APPROVED BY

Signature
 Title
 Craig G. Buck
 Acting Director

Date Signed
 MM DD YY
 08 14 85

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

MM DD YY

PROJECT PAPER SUPPLEMENT
TO RURAL SAVINGS MOBILIZATION PROJECT
(517-0179)

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11

AMENDMENT NUMBER ONE
TO THE
PROJECT AUTHORIZATION

Name of Country: ~~SS. ~~Central Bank of the Dominican Republic~~~~ Dominican Republic
Name of Project: ~~SS. ~~Basic Savings~~~~ Rural Savings Mobilization
Project Number: 517-0179

Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, the Rural Savings Mobilization Project was authorized on August 11, 1983. That authorization is hereby amended as follows:

a. Paragraph 1. is deleted in its entirety; substituted therefor is the following:

1. "Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Rural Savings Mobilization Project for the Central Bank of the Dominican Republic (Grantee) involving planned obligations of not to exceed Nine Hundred Fifty Thousand United States Dollars (\$950,000) in grant funds over a 3 year period from the date of authorization, to finance the foreign exchange and local currency costs for certain goods and services required for the project as described in the following paragraph. The planned life of the project is 3 years and 4 months."

b. Paragraph 2. is deleted in its entirety; substituted therefor is the following:

2. "The project goal is to improve the supply of financial services in the rural areas of the Dominican Republic. The purposes of the project are to improve the viability and efficiency of financial institutions that now operate or in the future, may operate in the rural areas, and to expand substantially the access of the rural population to deposits, loans and other financial services. Project activities will include, but not be limited to (a) savings mobilization campaigns to be carried out through the Agriculture Bank, Credit and Multiple Services Cooperatives, their branches and affiliates; (b) institutional strengthening and financial management of such institutions; (c) the preparation of reports and

studies related to the operation of financial markets in the Dominican Republic; and (d) the dissemination of the results of the research studies through savings workshops, seminars and publications to Dominican public and private sector financial institutions and policy makers."

Except as amended herein, the authorization remains in full force and effect.



Craig G. Buck
Acting Director

August 14, 1985

Date

RURAL SAVINGS MOBILIZATION

PROJECT PAPER SUPPLEMENT

I. SUMMARY AND RECOMMENDATIONS

A. Summary

The Rural Savings Mobilization project (517-0179) was designed as a pilot project to demonstrate the feasibility of mobilizing voluntary savings in the rural areas. Since the signing of this project in 1983, the activity of savings mobilization through the Agricultural Bank has been very successful and has surpassed the original expected outputs. At the same time, the implementation of the purpose through Credit Unions has confronted constraints. Credit Unions have serious bottlenecks in their institutional structures, organization and capacity to mobilize savings. Therefore, a project extension has been designed to (1) continue, strengthen and complete the success in financial and institutional reforms going on in the Agricultural Bank; and (2) to further improve the viability and efficiency of the Credit Unions and explore the feasibility of developing other private sector intermediaries suitable for the rural areas. These purposes are expected to be achieved by various activities which are detailed below.

B. Recommendations

Based on the analysis carried out by the Agricultural and Rural Development Division, the Central Bank, and the project evaluators, the Project Committee recommends that the Rural Savings Mobilization project be amended to (1) reflect an increase in the amount of LOP grant funding to \$950,000; (2) reflect a change to broaden the definition of the project; and (3) extend the Project Assistance Completion Date to December 31, 1986.

II. BACKGROUND

A. Project Objectives

The stated goal of the Rural Savings Mobilization Project (AID-517-0179), as authorized in July of 1983, was to "increase agricultural production and incomes of the rural population, particularly the rural poor by improving the viability of the financial institutions that serve the rural areas and by expanding the access of the rural

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

The project was designed as a pilot effort, "to demonstrate the feasibility of mobilizing voluntary savings in rural areas of the Dominican Republic". Additional objectives were "to suggest major changes both in the internal financial management of participating institutions and in the set of aggregate financial policies, including interest rate policies". It was argued that an improvement of the supply of financial services in the rural areas required both a revision of financial policies and regulations as well as the strengthening of rural financial institutions.

B. Activities Designed

Four types of activities were designed in order to achieve these objectives: (1) institutional strengthening; (2) savings mobilization campaigns; (3) research; and (4) dissemination. It was understood that improvement of the financial viability of the Banco Agrícola and selected Credit Unions was a necessary precondition for successful deposit mobilization. Institutional strengthening efforts required included improvements in liquidity and portfolio management as well as adjustments in interest-rate policies. Four branches of the Banco Agrícola and four Credit Unions were tentatively selected for the pilot savings campaigns, although it was recognized that "other offices of these institutions or other financial intermediaries may be included later as the project progresses".

Establishing a research capability in the area of rural financial markets in key Dominican institutions was to be achieved through "a series of in-depth studies of formal and informal financial markets, transaction costs, savings behavior, and financial policy questions". This effort would also include the monitoring and evaluation of the pilot savings mobilization activities. Dissemination of project results was to be carried out through case studies, seminars, workshops, publications, and public discussion involving key policy makers.

C. Project Implementation

The Central Bank was chosen as the grantee and the main Dominican counterpart institution for this project. A project coordinator's office was established in the Central Bank to coordinate, monitor, and evaluate planned activities, as well as serve as the unit responsible for the disbursement of local currency allocations and technical resources provided under the project. This office was located in the Financial Department of the Central Bank, under the auspices of the General Manager.

Technical assistance was obtained from the Ohio State University, through an amendment (add-on) to the Cooperative Agreement on Rural Savings for Capital Mobilization between the University and the A.I.D. Science and the Technology Bureau. OSU provided the services of a long-term advisor on rural savings mobilization, who arrived in Santo Domingo in October 1983, on a two-year contract with OSU. The OSU coordinator of the project's technical assistance effort took an active role, and several short-term consultants provided the foreign expertise required.

D. Evaluation Report

A project evaluation conducted by Charles Blankstein (State University of New York at Stony Brook) and Jerry Ladman (Arizona State University) was conducted in October 1984. This report, dated February 1985, concluded that:

1. Project Implementation is well underway with exceptionally optimistic prospects in the Banco Agrícola and research components. Implementation of the Credit Union component reflects a less optimistic picture to date. The project 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 the Banco Agrícola. 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. The combination of public discussion, research by Dominican investigators, and operational innovation by Dominican institutions -- all supported and encouraged by flexible technical assistance and financial arrangements -- is a powerful model for assistance.
4. The scope and rapidity of development of the Banco Agrícola savings mobilization component has clearly outrun the modestly stated objectives of the project design which called for a "pilot" or "experimental" effort. This 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. Operational problems including the selection of participating Credit Unions, difficulties within FEDOCOOP, and the extent

of the work required to prepare the Credit Unions to mobilize savings resulted in the (Credit Union) components having less to show as of the time of the evaluation. The Credit Union component gives the outward appearance of a relatively high-cost, low-pay-off operation which lacks an institutional home and a demonstrated replication potential. Nonetheless, it is producing interesting if necessarily modest results.

6. A strong case can be made for the proposition that savings mobilization is moving too fast in the Banco Agrícola, whereas an opportunity for significant change now exists and should be exploited while support exists for important reforms. 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. 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.

8. Support from the S&T Cooperative Agreement was an essential factor in developing and implementing this project. The primary recommendation of the evaluators was that the Mission should follow-up a rural savings mobilization project and continue to work on financial sector reform. "Second generation" problems -- consequences of achieving "first generation" objectives -- have to be addressed.

This Project Paper Supplement outlines the objectives for the project and the details of the project's achievements, and the new components for the recommended follow-on activities.

III. ACHIEVEMENTS TO DATE

This section describes achievements of the institutional strengthening, pilot savings campaigns, research, and dissemination activities. The project played an important role in initiating and promoting thinking among senior-level officials of the Banco Agrícola about the need for, and benefits of, deposit mobilization. The appointment of a new administrator in March, 1984, coincided with completion of the preparatory efforts and, with his strong support, caused the Banco Agrícola to launch a major savings mobilization program. In June, the Monetary Board authorized the institution to receive savings and term deposits, and the first savings were deposited at the La Vega branch on July 2.

A. Banco Agrícola

To date, achievements at the Banco Agrícola include:

1. Establishment of a deposit mobilization unit, with a full-time staff of five persons, that has effectively participated in the design, implementation, and monitoring of the savings campaigns.
2. As of April 12, 1985, the Banco Agrícola had steadily expanded its deposit mobilization effort to 21 of its 31 branch offices throughout the country (opening up the deposit facilities one branch at a time). Total deposits mobilized in nine months amounted to DR\$4,152,900, of which about 60 percent constitute term deposits, and 40 percent savings deposits. At the end of March there were 7,297 savings accounts and 144 term deposits. The average amount of a savings deposit was \$216 (approximately US\$70), while the average size of a term deposit was RD\$17,000 (about US\$5,500). Since project design called for the operation of only four branches, there are no expected targets for comparison with these actual results. (It was expected that each branch would mobilize RD\$50,000 to RD\$100,000 in their first year of mobilization. This level has been surpassed by all but two branches, several with only a few months of operation.)
3. Of the total volume of deposits mobilized, the Banco Agrícola has lent RD\$2,910,000 (about 88 percent of funds available for lending), by granting over 90 loans in the same localities where the funds were deposited. The Bank is required to maintain a 10 percent reserve with the Central Bank and has adopted a voluntary reserve of another 10 percent of each one of the participating branches. Loan recuperation within the project has been 100 percent.
4. The Bank has modified its interest-rate policies, raising rates charged on loans and making them more uniform, in an attempt to cover in a better way financial and administrative costs. The interest rate structure on loans for agricultural production were raised and unified from between 11 and 14 percent to 16 percent. Loans for marketing were raised from 14 to 18 percent. Although in the right direction, these increases may not be sufficient to protect the Bank from present inflation.
5. Several organizational changes have improved efficiency within the Bank. These included the design of a new set of forms for reporting information on deposits and loans, computer programs to simplify information management, a new system of portfolio classification to deal better with default, and more uniform rules across borrower classes. The project has introduced two microcomputers at the branch level for data management.

6. Several staff training efforts, including a major workshop and other seminars, have been undertaken.

B. Credit Unions

In spite of the delays experienced in the actual implementation of deposit mobilization by the Credit Unions, by mid-December all four institutions selected were accepting savings accounts. This was the culmination of a long gestation period, involving administrative change, design of uniform accounting procedures, and interest rate reform. The deposit rate structure of two of these Credit Unions closely resembles those paid in non-regulated financial markets. As of mid-April, these institutions had mobilized RD\$119,746 in savings deposits and RD\$66,050 in time deposits. (This includes incremental deposits only and in San José de las Matas RD\$75,000, had already been mobilized before project implementation. Deposit activities are new in the other three Credit Unions.)

Participating Credit Unions have achieved significant reductions in loan delinquency, through the implementation of strict portfolio monitoring and specific default-control measures. Their lending activities have confirmed the existence of a large unsatisfied demand for credit in the rural areas, even at relatively high interest rates. The lessons learned with respect to the implementation of a more flexible interest-rate structure and innovative credit policies will be applicable to other private-sector institutions that may be developed for the rural areas.

C. Research and Dissemination

Research results have been an effective instrument for policy dialogue and problem-solving innovations in participating institutions. The Blankstein/Ladman report noted that the amount of research activity undertaken is quite remarkable, and has made important inroads into institutionalizing research units within the Central Bank and several universities.

With local currency, during the first year the project financed 8 research activities, involving the Central Bank, the Banco Agrícola, FEDOCOOP, the Catholic University (UCMM), the Superior Institute of Agriculture (ISA), the Technological Institute (INTEC) and the Secretariat of Agriculture. Topics investigated included rural informal financial markets, urban nonregulated financial institutions, agricultural credit, project evaluation, agricultural credit surveys, and savings mobilization. In addition, OSU conducted research on depositors' behavior, transaction costs, implementation of savings campaigns, and aggregate financial reform. Over 50 documents, reports, and technical notes have been written. Six new research efforts are in progress during

the second year, further investigating the economic and social dimensions of rural financial markets, the interaction between financial and foreign exchange markets, financial regulation, and savings mobilization.

Dissemination activities have included two major workshops (Puerto Plata I and II), one institution-wide workshop for the Banco Agrícola (Jarabacoa), and several training seminars for the Banco Agrícola and the Credit Unions, as well as lectures by OSU experts and participation of project-related scholars in three international conferences. Four issues of a project newsletter have been published.

IV. UNMET CHALLENGES AND NEW OPPORTUNITIES

As originally designed, the project considered only pilot savings campaigns in four branches of the Banco Agrícola and in four Credit Unions, in order to demonstrate to the Dominican Government and financial institutions the feasibility of mobilizing voluntary savings in rural areas. There are two main reasons for a deposit-mobilization effort: to offer savers an important service that so far had not been available in the rural areas, and to strengthen and stabilize the financial structure of participating institutions. In order to make the provision of these financial services effective, it was necessary to modify both policies and procedures as well as institutional structures. In the case of the Banco Agrícola, in particular, it was expected that the project would force the institution to evaluate its own performance from a new perspective, inducing it to modify its organization and policies. It was believed that the deposit-mobilization activities would eventually create imbalances that would necessitate correction, leading to major institutional changes beyond the project's scope. As expected, imbalances were faced by Banco Agrícola forcing this institution to adopt, among others, the following actions: (a) changes in interest rate policies; (b) greater emphasis upon training bank personnel; and (c) greater attention paid to: administrative cost and efficiency issues, levels of paperwork and information systems, and strategic planning within the institution.

By now it has been shown that rural savings do exist and that financial institutions can attract them, even under adverse economic circumstances. On the other hand, the project has shown that rural deposit mobilization is not as easy for the institution as originally believed, particularly once it has been expanded beyond the pilot stage. Serious "second generation" problems have to be faced, and new institutional dilemmas about strategy and organization area created by the success of the effort must be solved. As originally designed the small dimensions of the pilot savings campaigns were expected to create problems that would be manageable and contained. This learning period would then lead to a follow-on, full scale project.

In fact, actual mobilization activities at the Banco Agrícola have substantially outrun the modest design contained in the Project Paper. Project managers and advisors cautioned the bank's management about the dangers of too rapid an expansion. Nevertheless, a decision, partly political, was made to quickly enlarge the effort and the project managers (at the Banco Central, AID, and OSU) decided to take advantage of the institutions' enthusiasm and support and not to let the opportunity for major reforms within the bank pass without seizing it. As a result, the technical assistance task and logistic requirements became much larger than originally anticipated.

Given the larger dimensions of the mobilization efforts, "second generation" problems were magnified. Change within the institution has been taking place too rapidly and on too many fronts. While a complete institutionalization of the reforms will take time, there is a high degree of fragility of the present accomplishments. If some of these problems are not faced immediately (and in a much larger scale than originally envisaged), there is a danger that the whole effort may collapse. Not all of the changes, moreover, have been fully understood, accepted, and internalized by the bank's staff. A major training and technical assistance effort is required for the consolidation of the achievements. The same is true in the case of the Credit Unions.

The USAID is considering a follow-on project that would integrate a credit component within the savings mobilization efforts. The focus of this project should be to investigate alternative institutional channels which would permit the expansion and strengthening of the provision of financial services (credit and depository services) in the rural areas. It would seek to strengthen the long term financial viability of the participating intermediaries, in order to assure continued provision of these services. Possible participating institutions are farmer associations, cooperatives, the Banco Agrícola, and private banks.

V. PROJECT STATUS AND PROSPECTS

On the following page is a summary of the outcomes of the activities in each of the major components of the project, as of April, 1985, and anticipated by the end of the extended project. This shows how many key efforts, among them planned as well as unanticipated activities, will be consolidated or resolved by an extension and additional funding.

PROJECT OUTCOMES AS OF APRIL 30, 1985
AND EXPECTED OUTCOMES AS OF DECEMBER 31, 1986

	<u>April, 1985</u>	<u>December, 1986</u>
I. INSTITUTIONAL STRENGTHENING		
<u>Banco Agrícola:</u>		
A. Savings mobilization unit	Established	Consolidated
- (Staff)	5	8
B. Upgrading of computing department	Initiated	Completed
- Staff trained	-	3
C. New software:		
- Loan portfolio	Being installed	Fully operational
- Deposits	Being designed	Installed & operational
- Financial management	-	Designed & operating
- Branch microcomputers	2	At least 8
D. Bank transaction costs	Being studied	Substantially reduced
E. Interest-rate structure	Revised	Further revised to approach competitive levels
F. Staff training:		
- Managerial	-	3
- Intermediate	31	62
- Workshops	3	9
G. Portfolio management:		
- New form and data handling	Being designed	Fully operational
- New client classification	Being introduced	Fully operational
- Delinquency control	Being studied	Fully operational
H. Programming	New organization	Fully integrated
- Research	Informal	Institutionalized

	<u>April, 1985</u>	<u>December, 1986</u>
<u>Credit Unions:</u>		
A. Technicians trained	3	4
B. Technical support	Nonexistent	Created
C. Credit Unions reorganized	4	5
II. SAVINGS CAMPAIGNS		
<u>Banco Agrícola:</u>		
A. Branches mobilizing deposits	21 of 31	31 of 31
E. Deposits (RD\$ million)	4	10
- Deposits (No. of accounts)	4,000	7,000
C. Loans (RD\$ million)	3	8
D. Credit Union deposits	150,000	300,000
E. Existing private institutions	None	Increasing interest in rural savings activities
F. New rural institutions	None	Identified
III. RESEARCH AND DISSEMINATION		
A. Studies completed	6	18
B. Studies in progress	8	-
C. OSU research output	3	8
D. Rural finance unit at Central Bank	Informal	Institutionalized
E. Research at Banco Agrícola	Informal	Institutionalized

	<u>April, 1985</u>	<u>December, 1986</u>
F. Research at universities	3	3
G. Monographs	3	3
H. All-participant workshops	3	5
I. Institution or subject - specific seminars	4	10

VI. PROPOSED REVISION

A. Objectives

The project evaluators concluded that "there is a superficial ambiguity between the fairly conventional statement of rural development objectives 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" (p.18). Although "ambiguity in the goal and purpose statements have not caused any apparent confusion", it is desirable to articulate better the project purpose.

The project's main objective is to improve the supply of financial services in the rural areas of the Dominican Republic. USAID and the GODR assumed that such financial progress will increase production and improve wealth distribution. In particular, the project attempts (1) to improve the viability and efficiency of financial institutions that operate in the rural areas, to induce others -- that so far have been absent -- to do the same; and (2) identify new institutional financial forms suitable for the rural economy, in order to expand the access of the rural population to deposit accounts, loans, and other financial services.

Specifically, the project's objectives are twofold: (1) to strengthen the Banco Agrícola and a few rural Credit Unions as more complete and effective financial intermediaries, through a consolidation of their deposit mobilization and related activities; (2) to increase the understanding among Dominicans about the functioning of financial markets, leading to major policy reforms that would facilitate financial progress in the rural areas, and promote the penetration of the countryside by new financial intermediaries.

In summary, the project's main objective is redefined as follows:

1. To improve the supply of financial services in the rural areas of the Dominican Republic". Associated project subobjectives are:
 - a. To improve the viability and efficiency of financial institutions that now operate, or in the future may operate, in the rural areas;
 - b. To substantially expand the access of the rural population to deposits, loans, and other financial services."

2. Outputs to achieve the project purpose include:
 - a. A consolidation of the deposit-mobilization activities already initiated by the Banco Agrícola and four Credit Unions (La Vega, Santa Lucía, San José, and Vallejuelo), beyond the pilot effort;
 - b. To improve the financial management of the Banco Agrícola and the four Credit Unions, through changes in structure, procedures, and policies, and staff training, to make them more viable, less dependent intermediaries;
 - c. To assist FUNDEJUR (the Foundation for the Rural Youth) in its efforts to initiate deposit-mobilization activities;
 - d. To explore the feasibility of developing private-sector intermediaries (rural banks) suitable for the rural areas; and
 - e. To promote major financial policy reforms that would facilitate financial progress in the rural areas as well as in urban areas.

B. Project Activities

The project will continue with efforts in all four of its major areas of action:

1. Institutional strengthening and financial management;
2. Deposit mobilization;
3. Research; and
4. Dissemination and policy dialogue.

These areas will be grouped in the following activities based on past achievements. Deposit mobilization will now be efficiently carried beyond the pilot stage, while emphasis will shift from research to dissemination and training.

1. Institutional Strengthening and Financial Management

a. Banco Agrícola

Within the Banco Agrícola, the following areas will require special attention:

- Develop, install, and fine tune a modern and complete information and data management system: A deficient and obsolete information system has been a major bottleneck for more effective portfolio management and for the expansion of the deposit mobilization effort. Present deposit activities have already overloaded the system to the point of breakdown. The design of a new data management system will be completed within a few months, and the system will be installed and made fully operational before the end of the project. Microcomputers will be introduced in several branches and linked to the main system. Relevant software for financial management will be adapted or developed. Computer staff will be trained, to allow for the smooth operation of the new system.

- Change the organizational structure and the institutional "culture": To deal with its new responsibilities and internalized policy and procedure changes, the Banco Agrícola must revise its organization. Emphasis will be placed on information management, research and programming, and human resource development. Decentralization and improvements in decision making at the branch manager level will be crucial. To overcome resistance and break the long-established habits, training and motivation, as well as the design of flexible incentives will be promoted.

- Change asset management: In order to protect the integrity of deposits and to make mobilization profitable, the Banco Agrícola must improve its asset management. New flexible but safe lending criteria will be determined. Reserves and liquidity management will be improved. Portfolio diversification will be encouraged, for risk and liquidity management. Some of the constraints imposed by the Monetary Board's resolutions will have to be revised.

- Achieve increased cost efficiency: The funds obtained through deposits from the public are more expensive than the bank's traditional sources of finance. To make deposit mobilization profitable, the Banco Agrícola must reduce its operating costs. The project will measure various dimensions of transaction cost: The administrative costs of mobilizing deposits, lending costs within the bank, and non-interest costs imposed on borrowers and depositors. Sources of excess costs will be identified, cost-reduction innovations introduced, and procedures simplified. The project will also identify determinants of loan delinquency and design new measures to control default. Finally, the project will promote further interest-rate adjustments to allow the bank to cover its costs and protect the institution from inflation. These adjustments will result from continuous research efforts and dialogue with the top management levels. Continued research within the Bank will be directed at studying the level and structure of the administrative costs. Discussions with the top

management levels and Board of Directors will focus on the margin requirements to cover administrative costs within the Bank.

- Develop new instruments for deposit mobilization: The Dominican financial system is experiencing significant changes in regulation and increased competition from non-regulated intermediaries. In order to expand its mobilization of deposits, the Banco Agrícola must improve its competitiveness. The project will continue to monitor the evolution of the market for deposits, and explore ways for the Banco Agrícola to compete more effectively. Once the presently conducted internal evaluation is concluded, the Banco Agrícola will continue with the expansion of the system to operate deposit facilities in all of its 31 branches.

b. Credit Unions

With respect to the Credit Unions, three major questions must be addressed in the following months:

- Find a new institutional base (second-level mechanism): Technical Assistance component directed towards the Credit Unions is now being financed and managed directly from the Project Coordinating Office in the Central Bank given the bankruptcy of FEDOCOOP. This is not a viable long term solution, therefore, it has become necessary to find a stable institutional home for the Credit Union technical assistance and training component, a step required in order to replicate this model of mobilization. At the time of this Project Paper Supplement there are several options (the Central Bank, the Banco Agrícola, IDECOOP, or a new arrangement with a restructured FEDOCOOP). The training of Dominicans to provide this technical assistance and training will continue, but without such an institutional base, this human capital will be lost.

- Establish a 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.

- Consolidate deposit mobilization and organizational reforms of the Credit Unions: Deposit mobilization activities of the four participating Credit Unions are fragile and vulnerable. Rather than starting operations with new Credit Unions, the project will concentrate its efforts on consolidating and monitoring the activities of the present four participants. Lessons learned will be disseminated in the hope that the model that is developed will be replicated by others, without direct project involvement.

- Assist FUNDEJUR in its deposit mobilization activities: The project will provide assistance to FUNDEJUR in its efforts to mobilize domestic deposits at a pilot level.

2. Research and Dissemination

Additional applied research that is relevant to policy will continue under the project. It is expected that, before the end of the project, teams of Dominican researchers on rural financial markets will be available at the Central Bank, or the Banco Agrícola, and at least at one or two universities. The set of second-year research projects will be completed by September, 1985, and discussed at a major workshop. At that time, a new set of projects will be designed for the third year, to be carried out by the most successful among Dominican researchers, with the assistance of OSU staff and other advisors. Emphasis will be given to joint research efforts. In order to assure quality of the research work, timely completion of studies and more important provide on-the-job training to junior Dominican researchers, advisors and locals will bear the responsibility of conducting applied research from its conception until its completion. Studies will focus on:

- Transactions costs (at the depositor, mobilization, lending, and borrower levels);
- Deposit mobilization strategies and implementation problems;
- Market structure, financial regulation, and the impact of financial policies.

A specific research issue, to be explored, is the feasibility of establishing new institutional forms (e.g. private local banks) in the rural areas, or of transforming existing non-regulated institutions into more complete intermediaries. The legal framework for the operation of such institutions will be explored. Research about informal and non-regulated institutions may suggest feasible transformations. Deposit mobilization efforts by other existing institutions such as Agrarian Reform groups will also be explored. Sex disaggregated data to reflect participation of women will be taken into consideration wherever feasible.

On the basis of actual results from the deposit mobilization campaigns and research findings, it has now become possible to intensify dissemination activities. In addition to two more major workshops involving all project participants (Fall of 1985 and Fall of 1986), the project will sponsor two or three institution-wide workshops within the Banco Agrícola, as well as several seminars, lectures, and training activities for specific groups. Additional case studies will be

developed by ISA. Publication of research results will be a major dissemination activity. These publications will include the best among Dominican studies as well as more general OSU contributions. At least three to four monographs will be published, in addition to numerous pamphlets and the periodic newsletter.

3. Training

Training activities will be essential for the success of the deposit mobilization efforts and other institutional reforms at Banco Agrícola. This will include at least the following:

a. Short-term training of key bank officials at centers with internationally recognized programs in bank management, such as INCAE in Costa Rica or the Citibank Training Center in Puerto Rico.

b. Workshops for team building, strategic planning, and other human resource development within Banco Agrícola and selected Credit Unions.

c. Short-term courses, seminars, and other specific skill development activities for the personnel of both the central office and branches of Banco Agrícola and the Credit Unions, involving local banking experts and international consultants.

C. Expected Outputs

As shown in the Outputs Chart, by the end of the project, all 31 branches of the Banco Agrícola and at least four Credit Unions will be actively mobilizing deposits in the rural areas. Savings mobilization at the Banco Agrícola will have increased to DR\$10,000,000, of which about DR\$8,000,000 will be loaned out, with less than a 10 percent default rate. The provision of deposit services to about 7,000 depositors would have reduced their transactions costs of maintaining liquid reserves. Deposit mobilization by the Credit Unions will have added about DR\$300,000 to their loanable funds, while loan delinquency will have been reduced below 10 percent.

The Banco Agrícola will have introduced major organization and policy changes in the areas of information management, microcomputers, asset and liquidity management, cost efficiency, deposit mobilization, and human resource development. A viable second level institutional home, for the future provision of technical assistance to the Credit Unions, will have been established. The feasibility of promoting private rural banks will have been determined.

Two major workshops will have been held, to discuss results from at least twelve research projects completed by Dominicans, and four

research projects completed by OSU. About eight other seminars and workshops will have been conducted for specific groups. Three monographs and other studies will have been published. A major synthesis of research finding and lessons learned will be written by OSU staff.

D. Local Inputs

Given the many institutions that participate in the project, and the variety of activities to be undertaken, a coordinating unit, to disburse local currency and oversee performance, continues to be required. The coordinator's office at the Central Bank has provided these services adequately. Its location within the Financial Department has been crucial for the savings campaigns, providing the Banco Agrícola and the participant Credit Unions with expedient access to the regulatory and procedural issues of deposit mobilization. The Central Bank officials may shift its present location if the need arises.

One or two of the technicians trained by the project will be retained, to continue their work with the participating Credit Unions. At the Banco Agrícola, a major project input will be continuation of the design and installation of new computing services. Local banking experts will be hired for several of the training and dissemination activities.

In order to finance local inputs, additional PL-480 funding through December 1986, is required. In-kind local contributions will be extended to cover the new period of the project.

E. Technical Assistance

The project evaluators, the Dominican authorities, and the Mission consider the technical assistance provided by OSU to be very effective. The extension of the completion date to December 31, 1986 will require a new add-on to the S & T Cooperative Agreement, in order to secure OSU's services. This will make possible the extension of the resident advisor until October 1986, (and access to his services through December 1986).

The OSU coordinator will continue to manage technical assistance services and will participate in several of the research and policy dialogue activities. He will make at least eight more trips to the Dominican Republic (July, September, November of 1985, January, March, June, September, and December of 1986). He will concentrate his efforts on financial policy reforms at the Central Bank level.

OSU will arrange on-going short-term advice to the Banco Agrícola, designing the bank's new financial strategy and dealing with questions of portfolio management and default prevention, and in the development of a data management system. Other OSU short-termers will

advise the Banco Agrícola on organizational and human resource development questions. This will require a total of six more trips to the Dominican Republic, while associated consultants, with banking experts, will make another eight trips. OSU will provide on-going short-term advice for research, requiring five trips.

F. Revised Implementation and Financial Plan

In addition to extending the project assistance completion date to December 31, 1986, in order to responsibly complete and consolidate major project components and to resolve the unexpected needs created by the success of the deposit mobilization activities at the Banco Agrícola, this project will require additional funds.

Additional funding required is estimated at US\$450,000 for technical assistance, commodities, and international training. In addition, US\$20,000 will be provided in FY 1986 under the S&T Cooperative Agreement with Ohio State University. The GODR contribution will be increased by RD\$550,000. The detailed breakdown is given in the table on the following page.

RURAL SAVINGS MOBILIZATION

REVISED PROJECT BUDGET

AID FUNDS (US\$ 0000)			
	Original FX	Additional Required FX	Total
<u>Technical Assistance</u>			
- Long-Term US (14 m/m)	130	90	220
- Short-Term US	260	300	560
- Evaluation	15	10	25
	405	400	805
<u>Training</u>	-	40	40
<u>Comodities</u>			
- Equipment	30	10	40
- Vehicles	36	-	36
<u>Contingency</u>	29	-	29
Total	500	450	950

GODR CONTRIBUTION (RD\$ 000)

	Original	Additional	Total
- Savings Campaign	60	30	90
- Liquidity Reserve Fund	100	-	100
- Research Study Support	162	100	262
- Dissemination/Seminars	37	130	167
- Operations, Logistics, Personnel	353	220 *	573
- Contingency	80	70	150
Total	792	550	1,342

* The breakdown of additional funding will be:

- Central Bank \$110,000
- BAGRICOLA \$50,000
- Credit Unions \$60,000



BANCO CENTRAL DE LA REPUBLICA DOMINICANA

SANTO DOMINGO, R. D.
Año Internacional de la Juventud

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Señor
Craig G. Buck
Director Interino
U. S. AID Mission to Dominican Republic
Embajada de los Estados Unidos de Norteamérica
Calle César Nicolás Penson
Santo Domingo, D. N.

Asunto: Borrador final del documento suplementario para la extensión del Proyecto de Movilización de Ahorros Rurales (Donación A.I.D. No.517-0179).

Estimado señor Buck:

Me es grato referirme a su comunicación del 23 de julio pasado, con relación al documento citado en el asunto, para extender hasta diciembre de 1986 el Proyecto de Movilización de Ahorros Rurales.

En términos generales, estamos de acuerdo con lo indicado en el mencionado documento, de conformidad con lo que ya se ha discutido y negociado a este respecto con el Dr. Félix Santana, Gerente Interino de este Banco Central, y con funcionarios del Departamento Financiero de esta institución.

Hacemos uso de la oportunidad para saludarle con sentimientos de consideración y estima.

Muy atentamente,

Hugo Guillermo Cury
Governador

HGC
NMP/DC/sm

ACTION:	
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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK
(ANNEXED)

Life of Project:
From : FY 1983 to FY 1986
Total U.S. Funding: \$950,000
Date Prepared : July, 1985

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

Narrative Summary	Measures of Goal Achievement	Means of Verification	Important Assumptions
<p><u>Program or Sector Goal:</u> To stimulate production and improve income distribution by innovative approaches to rural savings and credit.</p> <p><u>Objectives:</u></p> <p>1) To improve viability of rural financial institutions so they can be responsive to rural development needs. To expand access of rural poor to savings and credit services.</p>	<p>1.2) Significant increased contribution by the rural sector to GDP and increased income for rural poor.</p>	<p>1.3) Published data and reports by Central Bank and other government agencies.</p>	<p>1.4) <u>For Achieving Goal Targets:</u></p> <p>a) GODR policies for savings mobilization are supportive and adequately improved. b) Overall socio-economic conditions do not deteriorate further.</p>
<p><u>Project Purposes:</u></p> <p>To improve the supply of financial services in the rural areas of the Dominican Republic. To increase the understanding among Dominicans about the functioning of financial institutions.</p>	<p>2.2) <u>End of Project Status- Indicators that Purposes Have Been Achieved:</u></p> <p>a) Existence of 36 viable financial offices providing savings and credit services to the rural poor in the D.R. b) Additional applied research carried out on Dominican financial markets.</p>	<p>2.3)</p> <p>a) Participating credit union records: - BAGRICOLA and participating branches records; - Central Bank and Superintendent of Banks' records. b) Joint BAGRICOLA/Central Bank/USAID evaluations. c) Visits to participant credit unions and BAGRICOLA branches. d) Interviews of participant credit union members and BAGRICOLA clients.</p>	<p>2.4) <u>For Achieving Purposes:</u></p> <p>a) Savings opportunities draw resources out of unproductive uses resulting in credit availability to more productive uses. b) Improved access to savings and credit will lead to implement savings mobilization programs. c) Other institutions than those participating are willing to implement savings mobilization programs.</p>

3.1) Outputs:

- a) To consolidate the deposit-mobilization activities already initiated by the BAGRICOLA and four credit unions.
- b) To improve the financial management of the BAGRICOLA and the four credit unions, through changes in structure, procedures, and policies, and staff training, to make them more viable, less dependent intermediaries.
- c) To assist FUNDEJUR (the Foundation for the Rural Youth) in its efforts to initiate deposit-mobilization activities.
- d) To explore the feasibility of developing private-sector intermediaries (rural banks) suitable for the rural areas.
- e) To promote major financial policy reforms that would facilitate financial progress in the rural areas as well as in urban areas.

3.2) Magnitude of Outputs:

- a) 31 BAGRICOLA branches and five rural credit unions providing deposit facilities.
- b) At least 4 technicians in credit unions trained and a base for central technical support created.
- c) At least one Dominican technician in each of the participating institutions monitoring and evaluating savings performance of these institutions.
- d) Additional savings generated (RD\$7,300,000) and lent with less than 10% default rate.
- e) "Adequate" reserves (about 10% of additional savings) generated to cover possible withdrawals.
- f) 26 studies and 3 monographs completed and published on Dominican financial markets.
- g) Five all-participant workshops and 10 institution-or subject-specific seminars carried out.

3.3)

- a) BAGRICOLA records.
- b) Records of participant credit unions, BAGRICOLA branches, Central Bank, ISA, UCOMM, and Superintendent of Banks.
- c) Progress evaluations of participant institution.
- d) Published reports.
- e) Mid-term evaluation.
- f) Monitoring reports.
- g) Seminar reports and followup plans.

3.4) For Achieving Outputs

- a) Participant credit unions and BAGRICOLA receptive to implementation of appropriate incentives for savings mobilization, and to assistance in institutional change.
- b) Savings mobilization programs are successful.

4.1)

- a) Technical Assistance.
 - 1) - Long Term (38 p/m).
 - 2) - Short Term (49 p/m).
- b) Commodities.
- c) Training.
- d) Evaluation.
- e) Other Expenses.
- f) Contingencies.

4.2)

	AID (\$ 000)	GODR (RD\$ 000)
	FX	LC
a) (1)	220	-
(2)	560	-
b)	76	-
c)	40	-
d)	25	-
e)	-	1,192
f)	29	150
Total	950	1,342

4.3)

- USAID accounting records.
- Audit reports.

4.4) For Providing Inputs:

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