

PROJECT DATA SHEET

1. TRANSACTION COPY

A = Add
 C = Change
 D = Delete

Amendment Number

DOCUMENT CODE

3

2. COUNTRY/ENTITY

ST/MD

3. PROJECT NUMBER

936-5315

4. BUREAU/OFFICE

ST/MD

5. PROJECT TITLE (maximum 40 characters)

Rural Savings for capital Mobilization

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
0 6 3 0 8 6

7. ESTIMATED DATE OF OBLIGATION

(Under 'B' below, enter 1, 2, 3, or 4)

A. Initial FY 8 2

B. Quarter 4

C. Final FY 8 6

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

| A. FUNDING SOURCE | FIRST FY 83 | | | LIFE OF PROJECT | | |
|------------------------|-------------|--------|----------|-----------------|--------|----------|
| | B. FX | C. L/C | D. Total | E. FX | F. L/C | G. Total |
| AID Appropriated Total | 350 | | 350 | 1,392 | | 1,392 |
| (Grant) | () | () | () | () | () | () |
| (Loan) | () | () | () | () | () | () |
| Other U.S. | | | | | | |
| 1. | | | | | | |
| 2. | | | | | | |
| Host Country | | | | | | |
| Other Donor(s) | | | | | | |
| TOTALS | 350 | | 350 | 1,392 | | 1,392 |

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) EN | 280 | 246 | | 0 | | 1,392 | | 1,392 | |
| (2) | | | | | | | | | |
| (3) | | | | | | | | | |
| (4) | | | | | | | | | |
| TOTALS | | | | 0 | | 1,392 | | 1,392 | |

10. SECONDARY TECHNICAL CODES (maximum 5 codes of 3 positions each)

240

11. SECONDARY PURPOSE CODE

260/710

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

A. Code

BR

EQTY

BF

RGEN

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To mobilize private savings in rural areas, to increase the availability of financial capital in rural areas — especially to small borrowers — and thereby to improve the economic circumstances of these borrowers.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
0 9 8 4 0 4 8 6

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of 4 page PP Amendment.)

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17. APPROVED BY

Signature

Ruth K. Zagorin

Title

Agency Director for Human Resources

Date Signed

MM DD YY

15 24 8 6

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

MM DD YY

1 1 1 1 1 1 1

Project Authorization

Name of Country/Entity: Worldwide
Name of Project: Rural Savings and Capital Mobilization
Number of Project: 936-5315

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Rural Savings for Capital Mobilization Project involving planned obligations of not to exceed \$1,392,000 in grant funds for a four year period from date of authorization, subject to the availability of funds in accordance with the AID OYB/allotment process, to help finance foreign exchange and local currency costs for the project.

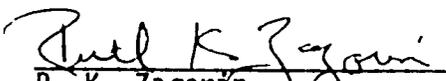
2. The purpose of the project is to mobilize private savings in rural areas, to increase the availability of financial capital in rural areas - especially to small borrowers - and thereby to improve the economic circumstances of these borrowers. This project seeks to demonstrate the viability of this savings mobilization approach for the accumulation of financial capital in rural areas of developing countries. In so doing, attendant applied field research, technical assistance, training, and dissemination activities will also be provided in support of the primary objective of demonstrating the practical viability of rural savings mobilization as a vehicle of development.

3. Source and Origin of Goods and Services

a. Each developing country where training or other assistance takes place under this project shall be deemed to be a cooperating country for the purpose of permitting local cost financing.

b. Goods and services, except for ocean shipping, financed by AID under the project shall have their source and origin in a cooperating country or in the United States except as AID may otherwise agree in writing.

c. Ocean shipping financed by AID under the project shall, except as AID may otherwise agree in writing, be financed only on flag vessels of the United States.



R. K. Zagorin
Agency Director for Human Resources
Bureau for Science and Technology

Date 5/24/82

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ACTION MEMORANDUM FOR THE AGENCY DIRECTOR FOR HUMAN RESOURCES

FROM: ST/MD, Jerome T. French *J. French*

SUBJECT: Authorization of ST/MD's Rural Savings for Capital Mobilization Project.

Problem: Official authorization and approval is sought for the ST/MD Rural Savings for Capital Mobilization project which was recently reviewed by the Human Resources Sector Council.

Discussion: The PID for ST/MD's proposed project on Rural Savings for Capital Mobilization was reviewed on December 10, 1981. The technical committee for the project met on March 18, 1982, and agreed to some minor substantive revisions which had emerged following the PID review. The PP was reviewed by the Human Resources Sector Council on April 26, 1982.

Recommendation: That you approve this project and funding for it in the amount of \$1,392,000, with the first obligation of funds to be made in FY 82, by signing the attached Project Data Sheet and Project Authorization. Remaining funds will be obligated in each of the three succeeding fiscal years.

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May 13, 1982

ACTION MEMORANDUM FOR THE AGENCY DIRECTOR FOR HUMAN RESOURCES

FROM: ST/MD, Robert Firestine *RF*
THRU: ST/MD, Jerome French *JF*
SUBJECT: Rural Savings for Capital Mobilization (Project No. 936-531S)

Problem

To most efficiently facilitate anticipated future work in rural savings demonstration activities and in rural finance, the newly approved Rural Savings for Capital Mobilization project should be awarded directly to The Ohio State University.

Discussion

Background to the present project. This project, which was originally named Rural Savings and Credit, was reviewed by the Human Resources Sector Council on April 26, 1982, and was subsequently approved. It is now desirable to award the subject Cooperative Agreement directly to The Ohio State University (OSU) on the basis of the demonstrated and unique experience, interest, and capability of that institution to perform the work described in the subject PP. This is argued from the dual perspectives of (a) substantive work activities to be undertaken under the project and (b) cost effectiveness in implementing the anticipated research and field demonstration efforts.

Substantively, OSU is completing a fifth year of applied research experience in ST/RAD's Rural Financial Markets (RFM) project, the immediate predecessor of the newly-approved Rural Savings project. Under Rural Financial Markets, OSU conducted applied field research on a wide variety of issues. These activities included studies of farm household economic behavior in Thailand, group lending efforts in Jamaica, and longitudinal surveys of the relationship between farm income and credit in Bolivia.

From the long-term perspective, however, the most promising field work under RFM related to its two-year experiment in Peru with the mobilization of private savings. Working in two different locations, OSU consultants achieved significant success in mobilizing private savings through BANCOOP, a second-level cooperative (ie, a cooperative of cooperatives). Specifically, the BANCOOP experiment combined important interest-rate inducements (positive real rates of interest) with improvements in service quality of BANCOOP branch offices (staff trained to respond to customers' needs, more convenient hours of operation) and some promotional devices (better advertising, gifts for

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opening new accounts, etc.) to successfully encourage the substantial expansion of private savings in individual savings accounts. This experiment was most successful, with significantly greater amounts of savings being mobilized in this fashion than had been targeted at the beginning of the endeavor.

The next step, to be carried out under the new Rural Savings for Capital Mobilization project, is to demonstrate the viability of such savings mobilization techniques under a variety of developing country circumstances. Importantly, this means the mobilization of private savings in rural areas in order to expand the availability of capital for local re-lending in those areas. The emphasis here is on such local mobilization of this capital through rural financial institutions which can be financially viable and self-sustaining over the long term, without resort to public sector institutional subsidies and all the problems which accompany them. This financial viability is achieved through utilization of capital via the expansion of private savings (a la the Peru experiment) and the re-lending of these funds at sufficiently higher interest rates to cover operating costs of the institution. The trick here, of course, is that loan repayment rates must be kept relatively high: excessive volumes of late repayments and loan defaults can destroy the rural financial institution through decapitalization.

Applicability of OSU's broad institutional experience. It is here where the breadth of OSU's experience is so important. OSU has long championed the interest-rate device described above as the key element in establishing viable rural financial institutions. Moreover, OSU's extensive research and field work experience has also consistently stressed the importance of a local community orientation in the operation of rural financial institutions. This local orientation means the establishment and maintenance of close geographic, political, social, and cultural proximity between the lending institution and its borrowers. This improves the quality of loan-making activity, and it contributes greatly to the likelihood of timely loan repayments (and thus the chance for a known borrower to obtain subsequent -- or continuing -- credit).

The researchers affiliated with OSU have long stressed the importance of an appropriate local orientation in the pursuit of financial institutional viability. Clearly, such a perspective is vital for the future success -- in the fullest sense of the word -- of the proposed rural savings mobilization demonstration activities. Perhaps the most important "output" in this "second-generation" centrally-funded project would be a variety of self-sustaining rural financial institutions whose recent history would testify to the appropriateness of the policies and techniques to be implemented in this project.

Finally, a note on policy is in order. The type of financial policies suggested by this project relate to the national financial sector as well as to rural financial markets. Indeed, it may be necessary to address national-level financial sector policies as a means of most effectively implementing the proposed rural savings and credit policies. Here, particularly, the predominant international reputation of OSU weighs heavily in its favor. Dale Adams has long argued of the importance of reaching high-level policy-makers whose purview extends beyond rural finance, and his students are now well-established in positions of increasingly important

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responsibility in various government ministries throughout the developing world. The recent work of the OSU team in Honduras, headed by Professor Douglas Graham, actively supports just such a broad policy-oriented goal. In this effort, OSU is now completing a broad-gauged \$240,000 financial sector assessment to prepare the way for comprehensive financial reforms. Included in these reforms is the likelihood of a significant rural savings mobilization activity which, in combination with these other reforms, represents exactly the kind of work which is sought through the proposed Rural Savings for Capital Mobilization project.

A shared objective. ST/MD's preferred substantive content for this new project is exactly that of OSU: We each are in agreement with the other regarding the specific tasks to be done, and these objectives are precisely reflected in the existing Project Paper. Moreover, OSU possesses the necessary intellectual momentum, faculty strength (augmented at least for the next year by Dr. Claudio Gonzales-Vega as Visiting Professor), working contacts (with field Missions and with potential consultants, both in the U.S. and in LDCs), and Mission recognition to carry out the proposed work at the behest of individual USAID Missions.

Why a cooperative agreement? The cooperative agreement is the proper mode for implementing the proposed work. At the outset, it permits a careful specification of both the intellectual substance and the operating format (demonstration activities, dissemination, etc.) of the project. Throughout the project, it allows for identification of appropriate host countries and subsequent specification of terms of reference, cost sharing arrangements, etc. As a device to support the provider institution to pursue applied research of interest to the Agency, the cooperative agreement mode is ideal.

It would be most cost effective to award the forthcoming Cooperative Agreement (CA) directly to OSU. OSU has the necessary institutional experience with A.I.D. Both its project management and its administrative staff have extensive previous knowledge of A.I.D. substantive needs and operating procedures. There would therefore be no undesirable surprises with regard either to intellectual issues or operational practices.

Assurance of continuity. Moreover, the direct award of the new CA to OSU would assure continuity in the transition between OSU's existing field activities and some potential interventions that are anticipated to occur at the outset of the new Cooperative Agreement. Primary among these is the important continuing work in Honduras. The Honduras Mission hopes to utilize the OSU team to monitor the implementation of these anticipated reforms, perhaps beginning as early as June 1982. Accordingly, the Mission has inquired into the possibility of an extension of the existing project for a 2-year period. This Mission request for a long-term intervention should ideally be serviced through the proposed new cooperative agreement; it is clearly in the interest of both ST/RAD and the Mission to do so.

CM/COD has informed ST/RAD that the only necessary mechanism for awarding the new CA directly to OSU is a signed action memorandum from you providing the rationale for such a decision.

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Recommendation

That you approve the direct award of the new Cooperative Agreement for Rural Savings for Capital Mobilization (under Project No. 936-5313) directly to The Ohio State University.

Approved: [Signature]

Disapproved: _____

Date: 5/24/82

Clearances:

| | | | |
|-----------------|------------|-------|-------------------|
| ST/RAD:DHiller | <u>DH</u> | Date: | <u>May 14, 82</u> |
| ST/RAD:LHatt | <u>LH</u> | Date: | <u>May 13, 82</u> |
| ST/PO:GStandrod | <u>GLS</u> | Date: | <u>May 13, 82</u> |
| ST/PO:BChapnick | <u>BC</u> | Date: | <u>5/29/82</u> |

Drafted by: ST/RAD:RFirestone:ref:04G 5/13/82
235-8913

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