

A.I.D. EVALUATION SUMMARY PART I

(BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS)

PD-AA2-063

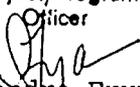
IDENTIFICATION DATA

A. REPORTING A.I.D. UNIT: <u>S&T/RD/RRD</u> (Mission or AID/W Office) (ES# <u>1</u>)	B. WAS EVALUATION SCHEDULED IN CURRENT FY ANNUAL EVALUATION PLAN? yes <input checked="" type="checkbox"/> clipped <input type="checkbox"/> ad hoc <input type="checkbox"/> Eval. Plan Submission Date: FY <u>87</u> Q <u>3</u>	C. EVALUATION TIMING <i>6/30/87</i> Interim <input type="checkbox"/> final <input checked="" type="checkbox"/> ex post <input type="checkbox"/> other <input type="checkbox"/>			
D. ACTIVITY OR ACTIVITIES EVALUATED (List the following information for project(s) or program(s) evaluated; If not applicable, list title and date of the evaluation report)					
Project #	Project/Program Title (or title & date of evaluation report)	First PROAG or equivalent (FY)	Most recent PACD (mo/yr)	Planned LOP Cost ('000)	Amount Obligated to Date ('000)
936-5315	Experimental Approaches to Rural Savings(ST core)	FY 82	12/88	3,000	\$4,829
			(Buy-in ceiling)	4,000	

ACTIONS

E. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR	Name of officer responsible for Action	Date Action to be Completed
Action(s) Required 1. Conduct a workshop for A.I.D./W and Missions that will review the recommendations of the evaluation. The workshop should cover issues such as savings mobilization, informal markets, market supervision and regulation and financial policy, and establish priorities for future work. The workshop should produce guidelines for operationalizing and prioritizing financial market activities in A.I.D. programs, and a proposed design for the follow-on project.	J. Grayzel/ S. Frydman	9/87
2. Develop a concept paper that builds on both the evaluation and the workshop, and outlines a successor project for S&T/RD.	J. Grayzel/ S. Frydman	10/87
3. Structure the successor project to include a broader framework of financial system and macro-economic environment concerns, in addition to both formal and informal markets.	J. Grayzel/ F. Frydman	FY88
4. Identify additional sources of academic and private sector expertise in the field of finance and credit, and expand the network of such sources available to A.I.D.	J. Grayzel/ F. Frydman	6/87
(See attached pg. 1-b) (Attach extra sheet if necessary)		

APPROVALS

F. DATE OF MISSION OR AID/W OFFICE REVIEW OF EVALUATION: mo <u>6</u> day <u>3</u> yr <u>87</u>				
G. APPROVALS OF EVALUATION SUMMARY AND ACTION DECISIONS:				
	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Signature				
Typed Name	Sandra Frydman	N/A	Vivian Anderson	Eric Chetwynd, Jr. 
	AID/S&T/RD/RRD		S&T/PO	S&T/RD
	Date: <u>6/29/87</u>	Date: _____	Date: _____	Date: <u>6/30/87</u>

H. EVALUATION ABSTRACT (do not exceed the space provided)

The initial purpose of the Experimental Approaches to Rural Savings Project (EARS) was to demonstrate the potential of mobilizing rural savings in LDCs, thereby increasing the availability of financial capital for improving economic circumstances, particularly for small borrowers. As the project evolved, its purpose expanded to encompass a broader range of financial market needs, including financial sector development and improved viability of financial institutions. Consonant with this expanded purpose, the project provided technical assistance for improving administration, credit allocation, and training. The ultimate goal became to assist missions in mobilizing rural savings, in providing a range of financial services to rural areas, and in improving the viability of rural financial institutions. Major findings are:

1. EARS has demonstrated the potential for rural savings mobilization in certain countries.
2. EARS research supports the thesis that saver-dominated financial institutions show lower loan delinquency, greater efficiency, and greater viability; and that loan targeting increases lender costs, imposes significant transaction costs on participants in financial markets, and contributes to loan delinquency.
3. EARS has underscored the importance of the macroeconomic environment to the viability of financial institutions and to the success of rural financial market (RFM) projects.

Recommendations for future RFM projects include:

1. Development of a follow-on project.
2. Continue to support financial reform and development as well as research on rural financial institutions.
3. Continue to promote financial sector policy dialogue.
4. Encourage OSU to assist local rural financial organizations to use proven concepts and methodologies.
5. Support additional research on urban and rural entrepreneurial financial needs, formal and informal financial sector integration, and broader financial sector policy issues.

I. EVALUATION COSTS

1. Evaluation Team Name	Affiliation	Contract Number <u>QR</u> TDY Person Days	Contract Cost <u>QR</u> TDY Cost (US\$)	Source of Funds
Thomas Tifft, AID Team Leader		20		
Social Consultants International, Inc. (SCI) Team:	Isaac Barnes, SCI	DHR-0000-C	\$45,700	S&T/RD
	David Cole, HIID			
	David Dapice, Tufts U.			
	John Gadway, Consultant			
	Richard Hook, HIID			
	Robert Hoover, PAS			
2. Mission/Office Professional Staff Person-Days (estimate)		60		
			3. Borrower/Grantee Professional Staff Person-Days (estimate)	30

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|---|--------------------------------------|------|
| 5. Design the successor project such that institutional strengthening through technical assistance is a significant component of project activities. Consider a range of options to achieve this objective. | J. Grayzel/
S. Frydman | FY88 |
| 6. Plan for a follow-on project to further advance the state-of-the-art and A.I.D. capabilities in the area of rural and financial systems. The current project makes clear that financial sector development is important, and will be increasingly so as donor funds decrease in availability. Financial markets that can allocate such resources effectively are essential to both rural and urban private sector development. | J. Grayzel/
S. Frydman | FY88 |
| 7. Ensure that all future findings from this and the successor project are disseminated to bankers, policy makers, as well as other appropriate individuals by including dissemination activities into project design. | J. Grayzel/
S. Frydman
and OSU | 6/87 |
| 8. Promote formation of a committee to coordinate A.I.D. Bureaus involved in credit/finance programs, in order to share knowledge and to encourage consistency in of policy and approach to financial market development. | J. Grayzel/
S. Frydman | 6/87 |
| 9. Summarize research results and field output carried out under project in comprehensive book. | OSU | |

A.I.D. EVALUATION SUMMARY PART II

J. SUMMARY OF EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS (Try not to exceed the 3 pages provided)

Address the following items:

- Purpose of activity(ies) evaluated
- Purpose of evaluation and Methodology used
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office: AID/S&T/RD/RRD

Date this summary prepared: June 29, 1987

Title and Date of Full Evaluation Report: An Evaluation - Experimental Approaches to Rural Savings, April 30, 1987

Project Description

The Experimental Approaches to Rural Savings (EARS) Project aims to: (1) test the ability to mobilize rural savings in LDCs and increase the availability of capital so as to improve economic circumstances, and promote rural financial institutions (RFIs); (2) provide technical assistance for improving the efficiency of RFIs; (3) conduct research for improving the profitability of RFIs and for developing successful strategies or incentives for mobilizing rural savings; and (4) improve the macroeconomic environment through policy dialogue. The project has implemented pilot projects in Honduras, the Dominican Republic, Niger, Bangladesh, and the Philippines.

Evaluation Purpose and Methodology

This is the final and only evaluation of the EARS Project. The purpose of the evaluation was to:

1. examine contributions made by the project;
2. recommend further research that may be required; and
3. indicate priorities for continuation of S&T/RD efforts in support of rural savings mobilization and financial systems improvement.

Methodology was consistent with the A.I.D. Evaluation Handbook and Chapter 12 of A.I.D. Handbook 3. An extensive selection of project documents was studied; relevant persons were interviewed; a field visit was made for discussions with project staff at OSU; and a trip to the Dominican Republic was made to observe one of the specific country projects directly.

Findings and Conclusions

1. The Macroeconomic Environment and Policy Dialogue:

(a) A favorable macroeconomic and regulatory environment is a precondition for a successful RFM project. Although the initial emphasis of EARS in the project paper was savings mobilization, this emphasis shifted to include a broader concern with the efficient functioning of rural financial markets. The project revealed that savings mobilization cannot be conducted in a vacuum; favorable macroeconomic policies and regulations are necessary preconditions for rural financial reform. Policy dialogue became the approach for achieving a favorable macroeconomic environment.

(b) Donor coordination is very important to rural financial market reforms. A.I.D. and OSU recognized the importance of coordinating financial market reform proposals. Coordination is particularly important when financial market reforms modify interest rate structures, reserve requirements, etc., since changes may be undermined by the inflow of other donor funds under subsidized conditions.

(c) Policy dialogue as opposed to financial leverage should be used to achieve policy changes. The project revealed that influencing policy for rural financial market development can best be done by communicating frequently with top level people as well

as others at the working level. Working closely with officials and staff persons at all levels is more effective in changing policy makers thinking than external pressure or "leverage."

(d) The conceptual approach for A.I.D. activity and research in this area needs to be expanded to include more than "rural" financial markets. The emerging view of rural financial markets suggests that the line should be drawn not so much along geographical as along socio-economic lines, and that the target group for improved financial services should not be merely farmers or rural households but all savers and borrowers, including those marginalized by the formal sector financial institutes, and who rely on the informal markets.

2. Research:

(a) Loan targeting erodes the viability of financial institutions and imposes damaging costs on participants in financial markets. OSU demonstrated in Honduras that loan targeting not only increases lender costs substantially but contributes to dismal loan recovery performance. The development bank data showed that a large share of bank resources were devoted to loan disbursement and monitoring activities, with few resources left over for crucial approval and recovery activities.

(b) Saver-dominated financial institutions show lower loan delinquency, greater efficiency, and greater viability. The Honduran demonstration project concluded that borrower-dominated institutions tend to show high rates of loan delinquency, poor rates of growth, perennial liquidity problems, and other weaknesses associated with dependence on external sources of funds, whereas saver-dominated institutions tend to show steady growth in assets and liabilities, lower loan delinquency, and greater efficiency and financial viability.

3. Savings Mobilization Demonstrations:

(a) Savings can be mobilized in rural areas of certain countries. The belief that the rural poor do not have sufficient income to save has been disproved. However, in the Dominican Republic, it appears that the Agricultural Bank's success in mobilizing deposits may be due to its ability to attract large urban deposits.

4. Methodology:

(a) No systematic procedure exists for selecting countries to receive assistance for their rural financial institutions. Missions tend to take the initiative in inviting OSU to become involved in a particular country, and OSU responds to the extent that its limited resources will allow. Because the amount of talent available to assist RFI development is limited, situations should be chosen carefully before committing significant human resources.

5. Dissemination:

(a) OSU did an adequate job of disseminating research results through reports, papers, seminars, and personal contacts. However, some question remains as to whether more bankers and policy makers should have been reached.

6. Project Impact

(a) The project has unquestionably made an impact on donors and host governments. International donors and most practitioners of development banking in LDCs are actively aware of the new thinking expressed by OSU and are designing programs and policies consistent with it. Nevertheless, top administrators and central bankers were not always fully converted to the "new thinking", often due to political changes and turnover at this level. OSU and A.I.D. should take into account the transition issue in developing future strategies for institutionalizing these innovative policy changes in specific countries.

Overall Project Assessment

The general assessment of OSU's performance is very favorable. Their research effort has been of high quality. Good field working relationships were established. Over the course of the project, OSU has emerged as a leader in research on rural financial markets.

Recommendations

The Bureau for Science and Technology, Office of Rural and Institutional Development, should:

1. continue to play an active and leading role in supporting development of and research on rural financial institutions, drawing on the established strengths of OSU and incorporating contributions from other groups with complementary skills;
2. continue to develop both internal and external sources of individuals with capacity to undertake financial sector policy dialogue, both in relation to rural financial markets and, when needed, broader financial sector policy issues;
3. encourage OSU to assist local financial organizations to use proven concepts and methodologies;
4. support additional research in new financial areas, such as: similarities and differences in RFM and urban, entrepreneurial financial needs; informal markets and methods of integration into financial markets; role of credit unions; related managerial research and other subjects;
5. develop a follow-on project through a process of mission and A.I.D./W participation which may draw upon suggestions for research, institution strengthening, and coordination project components described in the evaluation.

K. ATTACHMENTS (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier)

ATTACHMENTS

Experimental Approaches in Rural Savings Project; Evaluation Report.

L. COMMENTS BY MISSION, AID/W OFFICE AND BORROWER/GRANTEE

MISSION COMMENTS ON FULL REPORT

The Office of Rural and Institutional Development has retained on file comments relating to this evaluation from the Regional bureaus, the project manager, Ohio State University and Dr. Maxwell Fry, which have been taken into consideration in preparing recommendations of this study. Views expressed in these remarks will continue to be reviewed and discussed as we move into the development of the proposed follow-on activity.

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