PDWAJ424

Rural Savings H. [illegible]

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT PAPER FACESHEET

1. TRANSACTION CODE: A
A = ADD
C = CHANGE
D = DELETE

PP

2. DOCUMENT CODE: 3

3. COUNTRY/ENTITY: ST/RAD

4. DOCUMENT REVISION NUMBER: Original

5. PROJECT NUMBER (7 digits): 931-1169

6. BUREAU/OFFICE
A. SYMBOL: ST/RAD
B. CODE: 36

7. PROJECT TITLE (Maximum 40 characters): Rural Savings for Capital Mobilization

8. ESTIMATED FY OF PROJECT COMPLETION: FY 86

9. ESTIMATED DATE OF OBLIGATION
A. INITIAL FY 82   B. QUARTER 3
C. FINAL FY 85   (Enter 1, 2, 3, or 4)

10. ESTIMATED COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY B. FX	FIRST FY C. L/C	FIRST FY D. TOTAL	LIFE OF PROJECT E. FX	LIFE OF PROJECT F. L/C	LIFE OF PROJECT G. TOTAL
AID APPROPRIATED TOTAL						
(GRANT)	(300)	( )	(300)	(1,392)	( )	(1,392)
(LOAN)	( )	( )	( )	( )	( )	( )
OTHER U.S. 1.						
OTHER U.S. 2.						
HOST COUNTRY						
OTHER DONOR(S)						
TOTALS	300		300	1,392		1,392

11. PROPOSED BUDGET APPROPRIATED FUNDS ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE C. GRANT	PRIMARY TECH. CODE D. LOAN	E. 1ST FY 82 F. GRANT	E. 1ST FY 82 G. LOAN	H. 2ND FY 83 I. GRANT	H. 2ND FY 83 J. LOAN	K. 3RD FY 84 L. GRANT	K. 3RD FY 84 M. LOAN
(1) FN	280J	246		300		400		400	
(2)									
(3)									
(4)									
TOTALS				300		400		400	

A. APPROPRIATION	N. 4TH FY 85 O. GRANT	N. 4TH FY 85 P. LOAN	Q. 5TH FY R. GRANT	Q. 5TH FY S. LOAN	LIFE OF PROJECT T. GRANT	LIFE OF PROJECT U. LOAN
(1) FN	292				1,392	
(2)						
(3)						
(4)						
TOTALS	292				1,392	

12. IN-DEPTH EVALUATION SCHEDULED: MM 09 YY 84

13. DATA CHANGE INDICATOR. WERE CHANGES MADE IN THE PID FACESHEET DATA, BLOCKS 12, 13, 14, OR 15 OR IN PRP FACESHEET DATA, BLOCK 12? IF YES, ATTACH CHANGED PID FACESHEET.

2   1 = NO
2 = YES

14. ORIGINATING OFFICE CLEARANCE

SIGNATURE: Jerome T. French

TITLE: Director, S&T/RAD

DATE SIGNED: MM | DD | YY

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

AID 1330-4 (3-78)

73

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT IDENTIFICATION DOCUMENT FACESHEET (PID)

1. TRANSACTION CODE [C] A = Add C = Change D = Delete
Revision No. ______
DOCUMENT CODE 1

UNTRY/ENTITY RAD

3. PROJECT NUMBER [931-1169]

UREAU/OFFICE Science & Technology, A. Symbol S&T B. Code [10]

5. PROJECT TITLE *(maximum 40 characters)* [Rural Savings for Capital Mobilization]

STIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION

A. Initial FY 8 2
B. Final FY 8 6
C. PACD 8 6

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

FUNDING SOURCE		LIFE OF PROJECT
A. AID		1,392
B. Other U.S.	1.	
	2.	
C. Host Country		
D. Other Donor(s)		
TOTAL		1,392

8. PROPOSED BUDGET AID FUNDS ($000)

. APPRO-RIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. 1ST FY ______		E. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
103	280	246		300		1,392	
		TOTALS		300		1,392	

CONDARY TECHNICAL CODES *(maximum 6 codes of 3 positions each)*
030 | 240

10. SECONDARY PURPOSE CODE

PECIAL CONCERNS CODES *(maximum 7 codes of 4 positions each)*

A. Code							
B. Amount							

ROJECT 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.

ESOURCES REQUIRED FOR PROJECT DEVELOPMENT

Staff:

Funds

GINATING FFICE ARANCE

Signature
Jerome T. French

Title
Director, S&T/RAD

Date Signed MM | DD | YY

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

ROJECT DOCUMENT ACTION TAKEN
☐
S = Suspended
A = Approved
D = Disapproved
CA = Conditionally Approved
DD = Decision Deferred

17. COMMENTS

CTION ROVED Y
Signature
Title

19. ACTION REFERENCE

20. ACTION DATE
MM | DD | YY

2

TABLE OF CONTENTS

RURAL SAVINGS FOR CAPITAL MOBILIZATION

PART I. SUMMARY AND RECOMMENDATIONS

A. Recommendations

It is recommended that $1,392,000 in grant funds be approved to finance four years of applied research and consulting activity as outlined in this project paper. The obligation schedule would be as follows: FY 1982: $300,000; FY 1983: $400,000; FY 1984: $400,000; FY 1985: $292,000.

B. Description of the Project

This project is designed as a necessary and logical follow-on effort to ST/RAD's current cooperative agreement in Rural Financial Markets with Ohio State University (OSU) which is scheduled to terminate on June 30, 1982. That project has provided extensive field service in traditional agricultural credit assistance activities in the course of carrying out several important studies of possible innovative approaches to the improvement of rural financial markets. The most promising of these new approaches has proved to be the experimental mobilization of private savings in two rural areas of Peru through a USAID Mission project with a second-level cooperative (BANCOOP) utilizing OSU technical assistance made available through the Rural Financial Markets cooperative agreement. Of the variety of innovation techniques that have been explored through the current project, savings mobilization appears to offer the greatest potential for improving the institutional circumstances of rural financial institutions as a vehicle of development.

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. The mobilization of private savings in rural areas through formal rural financial institutions will increase the availability of financial capital to rural borrowers, thereby improving their economic circumstances in increasing the efficiency of their production, marketing, and/or consumption activities. The project will thereby bridge the gap between the limited experimental pilot study of savings mobilization in the initial Peru project and the eventual acceptance and implementation of this approch by a variety of host countries under a wide range of diverse circumstances.

Because of its extensive history of involvement in rural financial activities in developing countries and particularly its recent experience with and pursuit of savings mobilization as a vehicle of development (through the current cooperative agreement with ST/RAD), Ohio State University is seen to be the most capable potential provider of the services specified in this project paper. Accordingly, approval is sought ~~(a) to extend the current project (No 931-1169, to be re-named "Rural Savings for Capital Mobilization"~~

~~for an additional four years (to June 30, 1986) and (b)~~ to seek a proposal solely from OSU to provide the services described in this project paper through the vehicle of a new ST/RAD cooperative agreement with that institution.

These services were essentially outlined in an earlier PID, entitled "Rural Savings and Credit", which was approved on December 10, 1981. It is anticipated that the proposed extension of the project completion date and implementation of the new cooperative agreement may be accomplished sufficiently in advance of June 30, 1982, to ensure maximum continuity in t work of OSU in this field.

Part II. PROJECT BACKGROUND AND DETAILED DESCRIPTION

A. Background and Justification

This project seeks to mobilize private savings in rural areas, to increase th availability of financial capital in rural areas -- especially to small borrowers -- and thereby to improve the economic circumstances of these borrowers. The mobilization of private savings in rural areas will increase the availability of financial capital to rural borrowers, thereby improving their economic circumstances by increasing the efficiency of their production marketing, and/or consumption activities. The project is designed to expand the availability of financial capital in rural areas through the successful savings mobilization efforts of formal financial institutions that are operating in, or that are willing to extend their operations into, rural areas. Accordingly, rural savers will also benefit through the provision of a fair return on their savings. Rural economies may thus participate more fully in the development process via the growth of financial intermediation activities in rural areas through the expansion of rural financial institutions (RFIs).

This project is proposed as a necessary and logical follow-on effort to ST/RAD's current cooperative agreement in Rural Financial Markets with Ohio State University (OSU), will terminate in FY 1982. That project has provided extensive field service in traditional agricultural credit assistance

1

activities in the course of carrying out several important studies of possible innovative approaches to rural financial markets. The most promising of these new approaches has proved to be the experimental mobilization of private savings in two rural areas of Peru through a USAID mission project with BANCOOP utilizing OSU technical assistance made available through the Rur Financial Markets cooperative agreement. Of the variety of innovative techniques that have been explored through the current project, savings mobilization appears to offer the greatest potential for improving the institutional circumstances of rural financial institutions as a vehicle o development.

The proposed project is designed to take timely advantage of this promisin approach by focusing on the mobilization of private savings by formal rura financial institutions which would then utilize these funds to expand the availability of financial capital within these same rural communities. In so doing, it is intended to bridge the gap between the limited experimental pilot study of savings mobilization in the initial Peru project and the eventual acceptance and implementation of this approach by a variety of host countries under a wide range of diverse circumstances.

1. <u>Problems with Current Approaches to Rural Finance</u>

There is substantial evidence that many of the current techniques of raising and allocating funds for rural financial uses in developing countries are failing to achieve their desired results. In certain situations, moreover the current practices are exacerbating the rural finance problem. These difficulties derive in part from a theory of economic development that holds that resource transfers play an important role in promoting economic development and from a view that financial institutions are the best available vehicle for carrying out such resource tranfers. They are also reinforced by institutional demands from donor organizations and their internal bureaucracies to move large amounts of money so as to maintain their presence. These pressures not only help to produce programs and policies that adversely affect the performance of rural finacial markets in meeting the long-term needs of small producers and lower-income households; they also make it difficult to develop alternative approaches for supporting the emergence and improvement of financial intermediation in rural areas of developing countries.

Specifically, the widespread reliance upon subsidized interest rates in many developing countries is associated with such problems as:

- correspondingly limited availability of credit,
- high transaction costs for both lenders and borrowers,
- widespread incidence of arrears in loan repayment,
- serious weakening of financial institutions serving rural areas, and
- skewed distribution of credit benefits away from the rural poor (those having the least access to regular financial markets).

An examination of each of these concerns illustrates why financial markets institutions have not been improving their service to rural producers and households in general and to the smaller and less affluent of these potential borrowers in particular. Despite the targeting of such disadvantaged groups by rural credit projects, their successful access to capital remains generally low due to geographic isolation of financial institution branch offices from the work-and-residence locations of most rural households.

Even when this difficulty is overcome, the formal lending procedures themselves (through either public or private financial institutions) are typically too cumbersome and time-consuming. From the lender's perspective, it can prove difficult for banks to administer profitably these seemingly marginal loans: small rural loans often suffer from unusually high delinquency rates, and loan officers who are generally unfamiliar with the circumstances facing rural production have difficulty assessing rural credit situations and needs. Portfolio mix and institutional capital values thereb can suffer very substantially in the rural lending process. From the borrower's perspective, high transactions costs (both in monetary costs and time-and-effort lost in the loan application process) frequently drive the small rural borrower back to reliance on traditional village sources of capital. Such local lending rates can be many times higher than the subsidized formal rate. However, transaction costs and the general uncertainty of approval of a formal loan often make it in the best economic interests of the small rural borrower to obtain capital at higher interest rates from local moneylenders within the informal sector.

Clearly, traditional subsidized credit programs are often politically useful. The provision of subsidized agricultural inputs and concessionary rural credit is usually employed to compensate for agricultural price controls intended to encourage political stability among nonagricultural populations. This usefulness is frequently undermined, however, by the financial inability of lending institutions -- especially rural financial institutions -- to meet t credit needs of the majority of prospective borrowers. Moreover, wherever delinquency is a problem, institutional loan portfolios can fail to maintain their value, and institutional viability is thereby threatened. Accordingly, loans will be increasingly channeled to larger, "safer" borrowers who can offer better collateral and greater likelihood of timely repayment. Smaller borrowers thus are placed at a clear disadvantage in acquiring access to productive resources and in adopting new productive technologies.

Finally -- and importantly -- participating lending institutions become dependent on continued infusions of below-market external capital in order to maintain the original magnitude of their programs and, frequently, even to survive. Unless such additional outside funding is made available, rural households are left with reduced access to credit and with almost no access t institutional savings opportunities.

The work that AID has supported to date in the area of rural finance -- including the extensive efforts of the 1973 Spring Review of Small Farmer Credit, the very thorough work carried out by Ohio State University from 1976-1981 under the ST/RAD's Rural Financial Markets Project, and the recen joint AID-World Bank Colloquium on Rural Finance -- presents a fairly clear and consistent picture of the failings of traditional types of subsidized rural credit programs and policies. Unfortunately, AID has thus far not be particularly effective in promoting new policy or project approaches that t these findings into account. With a few notable exceptions (for which some documentation is available from ST/RAD) -- such as the BANCOOP Pilot Savings

Mobilization Project in Peru, the Rural Finance Experimental Project in Bangladesh, and the Invierno Project in Nicaragua -- AID-supported credit programs have been outstanding largely in terms of their lack of innovation and their failure to achieve their developmental (as opposed to their political) objectives. The evidence at this point is sufficient to call into serious question traditional types of rural credit programs. It provides strong support for developing and implementing new types of project and polic initiatives.

2. A New Approach: Primary Emphasis on Savings Mobilization

In the design of rural finance activities by AID and other donor agencies, little attention is traditionally devoted to the purpose of mobilizing rural savings. This task, however, is essential if LDC financial institutions are ever going to develop self-sustaining approaches for serving rural areas. The lack of concern for savings mobilization is generally predicated on the assumption that small farmers and other rural borrowers have little margin fo saving over consumption needs. Furthermore, normally urban-based financial institutions are viewed as being uninterested in the presumably small sums that might be mobilized in rural areas, while rural institutions are thought to lack the administrative and technical skills necessary for the successful mobilization of savings.

Contrary evidence indicates, however, that even limited-income households in developing countries can and do accumulate savings which could be effectively mobilized by rural financial institutions. This was apparent from numerous discussions at the 1973 Spring Review of Small Farmer Credit, which suggested that "small farmers throughout the Third World have a greater capacity to sav than has usually been recognized."[1] Further evidence on the savings potential of small farmers is summarized by Lipton[2] and by Bouman[3]. Adams cites related evidence from such diverse countries as Taiwan, India, Malaysia Zambia, Kenya, and other African nations in suggesting a general approach to savings mobilization strategy. It is worthwhile to cite this material in so detail:

> "If financial markets are to play a positive role in the resolution of rural poverty, fundamental changes in policies in most low-income countries will be necessary. Current policies are resulting in badly fragmented financial markets, in concentration of concessionally priced credit in the hands of relatively few people, in unprofitable financial operations in many rural cooperatives, and in little or no incentive for rural households to defer consumption. Overall, these financial policies are very regressive: the relatively well-off benefit from the concessionally priced credit, and the poor are denied access to production credit as well as remunerative savings instruments. Furthermore, perpetuation of fragmented financial markets results in too little honest competition between formal and informal financial markets. Under these conditions, some informal credit sources are able to continue to extract monopoly profits from small borrowers who are denied access to formal markets. A rationalization of financial market policies combined with aggressive savings mobilization programs would eliminate part of these undesirable features.

---

[1] M. Miracle, "Regional Similarities and Differences in Small Farmer Cre v. XIX, A.I.D. Spring Review of Small Farmer Credit (June 1973), p. 27.)

[2] Michael Lipton, Why Poor People Stay Poor: Urban Bias in World Development (Cambridge, MA: Harvard University Press, 1976), pp. 246-28, as cited in John Friedmann, "The Active Community: Toward a Political-Territorial Framework for Rural Development in Asia," Economic Development and Cultural Change, v. 29, no. 2 (January 1981), p. 245.

[3] F.J.A.Bouman, "Informal Savings and Credit Arrangements in Developing Countries: Observations from Sri Lanka," Discussion Paper No. 4, Colloquium on Rural Finance, held at Washington, D.C. at the Economic Development Institute of the World Bank, September 1981.

> "A savings mobilization effort should be carried out at two levels. Some changes must be made at a national level before substantial voluntary savings can be mobilized. In general, these changes include a more flexibl interest-rate structure."
>
> "The key element in a savings mobilization program is the attractiveness of the reward paid in savings. Convenience, liquidity, and security of the savings, however, strongly complement the return paid."
>
> "Any savings mobilization effort will work better where rapid agricultural growth and increasing rural incomes are occurring. A national savings program should, therefore, initially stress savings promotion in areas wher agriculture is on the move. Above all, regardless of where the program is started, it should be strongly supported and promoted. This includes rewards and recognition for successful organizations and managers."[4]

More elaborate arguments that savings mobilization should be an essential part of rural finance projects in developing countries are presented by Vogel, who supervised the successful Ohio State University savings mobilization work with BANCOOP in Peru. He presents four principal reasons for the importance of savings mobilization efforts: (1) income distribution, (2) resource allocation, (3) viability of financial institutions, and (4) appropriat incentives for projects:[5]

> (1) Income distribution: "Low interest rates create an excess demand for credit, thereby forcing financial institutions to ration credit away from small borrowers without traditional collateral who are perceived to be risky and costly to serve. Such rationing consists not only in loan refusals but also in increased costs for small borrowers. Even without the perverse concentration of credit resulting from low interest rates, an essential feature of financial intermediaries is the pooling of resources, that is, bringing together relatively small amounts from many savers so that relatively large projects involving economies of scale can be undertaken.

---

[4] Dale W Adams, "Mobilizing Household Savings through Rural Financial Markets," Economic Development and Cultural Change, v 26, no. 3 (April 1978), pp. 547-560.

[5] Robert C. Vogel, "Savings Mobilization: The Forgotten Half of Rural Finance," Colloquium on Rural Finance held at Washington, D.C. at the Economic Development Institute of the World Bank, 1981).

Hence, by their nature, financial intermediaties serve more savers than borrowers and have individual deposits that are smaller on the average than loans. Policies that focus on improving services for savers, not for borrowers, are thus the indicated route for helping the rural poor."

(2) Resource mobilization: Savings mobilization "improves resource allocation and thereby allows low-income countries to grow more rapidly. Effective savings mobilization by financial intermediaties draws resources away from unproductive investments, especially inflation hedges, as the opportunity is provided to make deposits which earn positive real rates of interest. These resources can be on-lent by financial intermediaries for those activities that provide the highest rates of return."

"It is ... argued that no additional savings will be generated because the rural population will not save more of their incomes in response to higher interest rates or other improvements in services for depositors. Such arguments confuse the flow of saving with the allocation of a stock of savings among competing assets and raise the further question of whether savings that are allocated to inflation hedges such as consumer durables should be counted as saving or consumption. Regardless of whether more is saved out of income, which is an open question both empirically and theoretically, effective savings mobilization can deploy the stock of assets of the rural population in more productive ways."

(3) Viability of financial institutions: "Financial institutions neglecting savings mobilization are incomplete institutions. Not only are such institutions failing to provide adequate services for rural savers, but they are also making themselves less viable, as can be seen most clearly in the high rates of delinquency and default that plague most agricultural development banks. ... Furthermore, borrowers are more likely to repay promptly and lenders to take responsibility for loan recovery when they know that resources come from neighbors rather than some distant government agency or international donor. Financial institutions that mobilize savings effectively are also likely to have a continual flow of resources available for lending, while these that neglect savings mobilization are inevitably subject to the feast or famine cycle of government and donor projects. Belief in the future availibility of loans on a timely basis can be a strong incentive for borrowers to repay promptly."

(4) Appropriate incentives for projects: Savings mobilization "provides appropriate incentives and discipline not only for rural financial marke and institutions but also for governmeents and international donors. Financial institutions are likely to have little interest in savings mobilization of loan recovery when cheap funds are available through government loans, central bank rediscounts or loans from international donors. It is largely ignored that the volume of resources that can be obtained through effective programs of savings mobilization and loan recovery is potentially far greater than the most optimistic estimates of the amount of subsidized loans and grants available from governments and international donors. Emphasis on savings mobilization is also incompatible with questionable programs of low interest rate lending because financial institutions cannot be expected to mobilize savings and on-lend them at interest rates that cover neither interest payments to depositors nor administrative costs."

Under Vogel's direction in Peru, the BANCOOP pilot savings mobilization effort (supported by USAID/Lima and ST/RAD) has indicated the possibility for successful savings mobilization efforts in rural areas of the developing world. BANCOOP is a second-level cooperative (a cooperative of cooperatives, with its directors elected by the cooperatives that have become members by making capital contributions to BANCOOP). BANCOOP was selected to participate in this experiment because it was already following a policy of high interest rates on loans and deposits within the limits imposed by Peruvian regulations, and it had been reasonably successful as an urban-based operation which interested in expanding to serve more rural areas. Assistance with savings mobilization was to be directed not only to BANCOOP itself but also through BANCOOP to the credit unions in the two target areas of Huancayo and Tingo Maria. In contrast to the overall BANCOOP policy, none of the five major credit unions in these two target areas had taken advantage of the opportunity to raise interest rates in response to the rather severe inflationary trends which Peru had experienced during the preceeding several years. Accordingly, capital availability had become a major problem for these local institutions, producing losses in numbers of active members and loan repayment problems on the part of current borrowers who saw no prospects for obtaining new loans. Finally, many credit unions experienced substantial operating deficits as stagnant interest income failed to keep pace with inflating operating costs

"BANCOOP initiated its savings mobilization activities in the two target areas in late 1979 in this adverse economic environment. In addition to rapid inflation and the weakened condition of credit unions, the Peruvian economy had shown no real growth in several years, and BANCOOP also faced

> potentially formidable competition from established financial institution including various commercial banks. Nevertheless, [see Table 1], by mid-1980 each of the BANCOOP target offices had already mobilized far more than the overall goal of $150,000 to be met by the end of the project in mid-1981 [and this is a very conservative estimate since it converts dollars at the exchange rate for each month rather than when the savings were mobilized, and the exchange rate approximately doubled during this period.] The growth in time and savings deposits, whether deflated to real soles or converted to dollars, has even continued beyond the end of the project and has spread to BANCOOP offices outside the tartget areas. By October, 1981, these deposits were equal to more than $1 million for the Huancayo and Tingo Maria offices. The success of savings mobilization, beginning in Huancayo and Tingo Maria, has even changed the entire financial structure of BANCOOP, as time and savings deposits have come to surpass substantially demand deposit balances. Furthermore, ... deposits at BANCOOP have grown far more rapidly during 1980 and 1981 than [have] deposits at commercial banks or other financial institutions."[6]

This evidence would therefore suggest that significant amounts of savings can be mobilized in rural areas if proper incentives are provided with the aid of adequate technical support. What is needed now is a series of more widespread demonstrations of this device as a means of achieving the objectives outlined above by Adams and Vogel.

B. Detailed Description

1. Project Goal

To assist USAID missions in establishing, testing, and implementing improved approaches to rural savings for capital mobilization so as to aid in the development of rural areas of LDCs.

---

[6] Ibid., pp. 13-14.

17

Table 1

BANCOOP's Selected Month-End Deposits Balances
(Thousands of Current U.S. Dollars)

	Total BANCOOP			Huancayo Office			Tingo Maria Office		
	Demand Deposits	Savings Deposits	Time Deposits	Demand Deposits	Savings Deposits	Time Deposits	Demand Deposits	Savings Deposits	Time Deposits
1979									
November	625	258	274	60	8	9	58	27	28
December	926	306	329	77	18	9	92	95	47
1980									
January	991	322	358	66	21	22	172	108	63
July	1,583	793	835	219	109	291	135	216	101
December	1,746	1,216	1,113	136	164	286	122	345	106
1981									
January	1,578	1,203	1,129	114	162	254	106	311	122
July	1,627	2,151	1,553	101	252	140	166	487	140
October	2,419	3,314	2,141	89	263	155	314	602	177

Source: BANCOOP unpublished reports.

2. Project Purpose

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.

Working in conjunction with individual USAID missions, ST/RAD will this project to pursue applied research and demonstration projects in the mobilization of private savings for capital mobilization in rural areas. Also, to the extent that it is related to this savings mobilization objective, the project may also provide technical assistance to rural financial institutions seeking to serve the savings-and-finance needs of borrowers especially small borrowers -- in rural areas of developing countries. Project core capacity will be supported by ST/RAD funding, with specifically-tailored mission interventions being funded primarily by each individual field mission in accordance with its needs and interests.

The primary mechanism for such savings mobilization will be interest-rate incentives and other market-oriented inducements and promotions which have been successfully demonstrated in the BANCOOP pilot savings mobilization effort in Peru. Further such activities will be sought to demonstrate, under a variety of local and institutional circumstances, the feasibility of expanding the availability of rural financial capital through private savings mobilization in rural areas. In associated endeavors of carefully designed applied research -- particularly in such environments as Africa where rural financial institutions are least well-developed -- it is hoped that joint mission-ST/RAD funding will make it possible to examine closely a few circumstances in which implementation of such projects might be especially promising in the future.

Savings mobilization will be sought for private savings accounts the funds of which will be utilized *in the rural locality* as *unsubsidized* loans, particularly to small borrowers. The formal lending rates on such loans may increase noticeably, since income from such lending should ideally cover institutional operating margins over-and-above the interest rates being offered to attract private savings in the first place. Nonetheless, formal institutional lending rates will likely remain below those charged by the informal moneylenders from whom many small rural borrowers presently obtain credit. Coupled with the much-increased volume of available rural financial capital generated through private savings mobilization, this should provide substantial net benefit flows to the small rural borrowers who now have only limited access to often expensive informal credit.

The essential savings mobilization efforts sought in this activity would be necessary focus of *any* new field endeavors to be begun under the project. That is, any new technical assistance services that are logically linked to the ultimate objective of private savings mobilization would be permissible. Examples run the gamut from:

a. efforts to improve overall host government financial policy (as a basis for instituting or laying the groundwork for potential savings mobilization efforts); to

b. brief but timely dissemination, promotion, and especially training within participating host countries during the course of the savings mobilization activities; to

c. technical assistance for credit delivery to those rural financial institutions seeking to mobilize private savings for rural re-lending.

Contrarily, then, new technical assistance initiatives for credit delivery (either short-term or long-term in nature) which are <u>not</u> otherwise related t the primary savings mobilization objective would fall outside the purview of this project. (The only exceptions to this would be mission-funded efforts intended to complete any applied research activities which had already begun prior to the scheduled June 30, 1982, termination of the existing Cooperati Agreement in Rural Financial Markets with The Ohio State University.)

Specifically, this statement confirms the importance of seeking to improve overall (national) financial policies in pursuit of the savings mobilization objective. Therefore, it illustrates the evident "second-generation" character of this proposed project: It seeks to generate, demonstrate, and institutionalize the most promising aspects of the Rural Financial Markets project and not merely to continue supporting the broader applied research agenda which was appropriate to that project and its precedent efforts

Accordingly, technical assistance for new endeavors in the field of credit <u>alone</u> may be provided under this project <u>if</u> they can be clearly linked to this savings mobilization objective. Such <u>savings-related</u> credit services to USAI missions may include technical assistance for the purpose of improving the administrative efficiency and operational capabilities of rural financial institutions in conjunction with potential savings mobilization demonstrati activities. These credit services may include:

a. more efficient financial administration of local- and intermediate-level savings/credit institutions, thereby

increasing managerial knowledge and control of institutional financial operations (such as magnitude, composition, and trends in lending activity); and

keeping lending rates as low as possible without resorting to public subsidy;

b. improved allocation of available credit to small rural borrowers through such means as

expansion of institutional branch office networks in rural areas;

the development of full-service capabilities of rural financial institutions to meet a wider range of customer needs;

better training of loan officers in the proper approaches to credit analysis and loan assessment in rural environments; and general training of senior- and mid-level credit management personnel in rural credit needs and in institutional lending perspectives toward rural areas. This might possibly include exploration of the adverse economic effects of artificially low farm prices on loan viability and on delinquency rates in agricultural or non-farm enterprise loans.

c. technical assistance and training in areas of loan characteristics (terms, collateral, etc.), financial records, risk assessment, etc.

3. Project Outputs

The project will provide a basic core capacity under ST/RAD funding for a four-year period through a cooperative agreement (CA) with one or perhaps two institutions. In cooperation with ST/RAD, the CA will assist the cooperating institution to provide the intellectual resource base upon which is built the overall applied research, technical assistance, training, and dissemination activities of the project. Central support and monitoring of this core institution is needed to provide an Agency-wide perspective to both the field applications and the knowledge generation activities. That broader perspective is essential if the diverse lessons to be learned from this project are to be put to their optimal use under the diversity of situations existing within all the host countries in all USAID regions. Within the scope of this central funding, a few significant applied research and state-of-the-art papers will be produced which are intended to highlight recent developments in the field (particularly since the 1973 Spring Review o Small Farmer Credit) and to chart the proper course for field work and research over the life of the project

Four general categories of output will be generated by this project:

a. Savings mobilization demonstration projects;

b. Applied research on impediments to savings mobilization for rural capital mobilization;

c. Technical assistance, training, and workshops; and

d. Dissemination of practical results.

Each of these categories of output will now be described below.

a. Savings mobilization demonstration projects showing the practical feasibility, under a variety of circumstances, of mobilizing private savings in adequate amounts to meet the growing financial capital needs of rural borrowers, especially small borrowers:

> As the principal endeavors of this project, these demonstration projects will seek (a) to implement and test new incentive packages and management systems designed to mobilize savings in rural areas and then (b) to utilize those funds as new investment capital for local lending. In support of a USAID mission project in rural finance, such activities could be carried out in conjunction with <u>any</u> rural financial institutions -- credit unions, savings and credit cooperatives, cooperative banks, other public or private banks, or any other formal financial institution -- interested in seeking to extend its rural outreach in this manner. That is, <u>no</u> specific constraints are envisioned upon the nature or character of the rural financial institutions which might potentially participate in these savings mobilization demonstration projects.

Demonstration projects in as many as four countries might each operate for a period of two years or longer. It is expected that the host institutions could then continue such operations long after the completion of the formal project. They would therefore build upon the very promising savings mobilization model recently implemented in a USAID mission project with Peru's BANCOOP under the ST/RAD-Ohio State University cooperative agreement in Rural Finance Markets. That endeavor has established that savings mobilization activities can successfully attract substantial amounts of private savings. The important next step is to demonstrate how, under a variety of developing country circumstances, private savings can be mobilized so as to serve the local credit needs in rural areas without reliance upon heavy public subsidy.

b. <u>Applied field research on economic and socio-cultural impediments to savings mobilization for rural financial purposes</u>, elaborating upon those circumstances wherein savings mobilization is most promising and examining the roles of formal and informal financial institutions in the development of rural areas in LDCs:

The BANCOOP experience in Peru signifies the promise of rural savings mobilization. However, it certainly does not ensure that this approach to expanded rural credit availability can be successfully applied in a consistent manner regardless of socio-cultural or institutional circumstances.

1) Regionally-oriented issues

As was noted in the 1973 A.I.D. Spring Review of Small Farmer Credit, it is likely than the formal financial institutions of L America are more fully developed than those of many African countries. Accordingly, while implementation of USAID-sponsorec savings-and-credit projects might begin almost immediately in several Latin American and Caribbean countries, such implementation might be delayed in the African context until certain socio-cultural issues are clarified. In light of the less developed nature of formal financial institutions in rural Africa, for instance, how might the role of informal credit (through families, merchants, or moneylenders) affect design and implementation of such a project? Should special consideration be given to local "esuzu"-type savings clubs, where regular withdrawls of the group's funds are rotated among all regular contributors of group savings? Might loan collateral prove to be a problem in societies practicing communal ownership of land, or could use of such devices as crop liens effectively supplant the costly and politically ticklish potential seizure of land-as-collateral? Particularly in the African context clarification of such issues may be needed prior to any savings-and-credit interventions.

2) Broader research and policy issues

Within the field demonstration activities, adequate provision should be made for discerning the interest elasticity of supply of capital from private savings. That is to say, what is the responsiveness of private savers to different rates of interest paid on savings (with proper consideration being given to the diverse circumstances under this question may be explored)?

Also, in the context of savings-and-credit policy, might it be appropriate to seek to identify certain local and/or sub-nationa conditions which, where present, might well militate against implementation of such market-oriented rural financial interventions? Examples of such conditions might include inadequa levels of farm prices under governmentally-mandated agricultural pricing schemes, extreme economic instability brought about by unusually high inflation rates, etc.

Finally, of course, it is important to address the ultimate question of long-term overall savings-and-credit strategies to extend well beyond the life of this project. In the context of (i) past AID approaches to this problem, (ii) continuing activities of other international donors, and (iii) observed experience during the course of this project, what should be AID's commitment, approach and strategy toward the overall area of rural finance?

c. Technical assistance, training, and workshops

1) Technical assistance

The technical assistance efforts ideally will support the demonstration projects by enhancing the operational capabilities and improving the internal management efficiency of rural financial institutions. They will thereby reduce both internal operating costs and risks to portfolio values of lending institutions. Additionally, a variety of technical assistance and training activities may be made available, generally to intermediate- and local-level financial institutions, on such topics as integrated savings-and-credit strategies, approaches to private savings mobilization, portfolio analysis and lending criteria for rural credit organizations, etc., as noted earlier. Most technical assistance work is expected to be of short-term duration, although long-term technical assistance efforts supporting institutional design and development could well continue throughout the overall life of the project.

2) Training and workshops

Training and workshops are intended to provide both (a) examinations o comprehensive policy issues concerning savings mobilization, rural finance, and overall financial policy to USAID missions, host country officials, and other relevant in-country personnel and (b) specific technical training on practical issues to operating-level personnel of financial institutions (at all levels) actually involved with savings mobilization and related finance activities. The examinations of comprehensive policy issues should be seen as involving as many high-level officials as possible from the host country government, from the USAID mission, and from other interested groups operating in-country. In fact, they would ideally combine the functions o training and dissemination, suggesting local applications of the comparative international experience on financial policy for rur financial capital mobilization. (See the following section for further discussion of this idea.) The specific technical training should be project-related and therefore cannot easily be characterized beforehand.

d. Dissemination of Practical Results

The results of those field activities will be disseminated to development practitioners and scholars, emphasizing operational problems and possibilities that are of the widest application within the development community. Project-funded dissemination will be oriented principally toward the sharing of "lessons learned" from project field interventions It will be carried out in part through carefully structured seminar/workshops on financial policy for rural capital mobilization, as noted above. The unique function of these efforts merits some comment here:

It is envisioned that the project should provide for traveling teams of recognized specialists to present seminar/workshops on financial policy and rural capital mobilization to appropriate groups at different regional locations throughout the world during the course of this project. These groups would ideally include host government officials at the policymaking level, USAID personnel, and other pertinent in-country specialists (including expatriate contractors, PVO professionals, etc.). As indicated above, the major objective of these workshop/seminars would be to suggest local applications of the extant comparative international experience on financial policy for rural financial capital mobilization. In so doing, these 2-or-3-person specialist teams would present perhaps 1-or-2-day seminar/workshops, sponsored and partially supported by the USAID mission.

These sessions would first seek to outline and explain the current state-of-knowledge on rural financial capital mobilization within th overall context of overall (national) financial policy. International comparative knowledge and experience in this field would be stressed particularly from the first-hand work of the seminar team and the cooperator institution. From this perspective, the team would then examine these issues as they relate to the geographic region in which th seminar was being held (especially if there were representatives from other neighboring nations in attendance). Finally, and most importantly, they would explore appropriate policies and approaches to these concerns as they pertain to the host country itself. The level of detail containe in that endeavor would surely depend on the information available.

In numerous cases, particularly in Latin America and Asia, it is expected that the cooperator's knowledge-and-information base would be rather extensive and that such presentations could be relatively easily organized. In other situations, especially in parts of Africa or the Near East, the level of local knowledge on these matters may well be less [illegible]isive. In such instances, a short survey mission may be desirable (though not necessarily imperative) to ensure that a seminar/workshop would achieve its maximum potential.

Previous ST/RAD experience of such presentations by Ohio State University specialists (in Indonesia, Nepal, Guyana, Honduras, and Bolivia, among others) has indicated high return to such activities, both in terms of enhanced mission knowledge of the developmental possibilities and and of host country interest and enthusiasm to cooperate in such endeavors. Most importantly, properly prepared presentations of this type can offer one of the most effective vehicles of encouraging higher-level host country decisionmakers to consider financial policy reforms permitting the improved financial intermediation in rural areas which is advocated in this project paper.

This type of activity is most suitable for a "second-generation" project such as this, for it offers the opportunity to share the known state-of-the-art from an international compoarative perspective while simultaneously disseminating the results of new demonstration efforts and seeking to apply all these lessons to the circumstances facing the host country and perhaps its regional neighbors. Such workshops, which might potentially be conducted in cooperation with an appropriate regional organization, would provide substantial impetus for the continued application of the experiences within individual regions. It is hoped that one such workshop might be held in each of the four A.I.D. regions during the course of the project.

4. Project Inputs

A.I.D.'s inputs to the project will be

a. Centrally-funded inputs to the Cooperative Agreement with Ohio State University totaling $1.392 million over four years. (See Part III.B.4. for details.)

b. A forthcoming comprehensive volume on the current knowledge and state-of-the-art in rural financial institutions and rural financial capital mobilization which resulted from the Colloquium on Rural Financial Markets held in Washington, D.C., in September 1981 under joint sponsorship of ST/RAD, OSU, and the Economic Development Institute of the World Bank. It is hoped that this material may be published in book form by the Johns Hopkins Press for the World Bank by the time the proposed new Cooperative Agreement is implemented.

c. One ST/RAD project officer having substantive knowledge of financial policy and rural finance issues who will monitor the continuing work of the project at Ohio State University.

d. Mission and host government financial and staff commitment which also simultaneously serves their own planning needs.

e. Advice, guidance, and decisionmaking by the ST/RAD Rural Institutions Division Technical Subcommittee of the ST/RAD Human Resources Sector Council.

Of these inputs, only the first will be funded from this project. Provision of project inputs will be verified by regular A.I.D. reporting requirements.

Assumptions necessary for provisions of the inputs are

a. Sufficient funds are available;

b. The Cooperative Agreement mechanism to be utilized can effectively meet the requirements of both A.I.D. and the participating university;

c. Agreement can be reached with USAID missions and host governments t facilitate and cooperate in applied research and consulting services.

PART III. PROJECT ANALYSES

A. Technical Analysis, including Environmental Assessment

The project seeks to provide assistance to USAID Missions in more clearly defining critical rural development problems facing them and in divising appropriate program responses. The technical nature of recommended responses will vary according to in-country circumstances. Since project activity will occur in several countries in response to demand from Missions, it is not possible to this time to specify what would be a technically correct response. The implementers of project activity will be expected to be sensitive both to different country situations and to common properties which may provide general solutions for application elsewhere. The emphasis of the project will be placed on appropriate, effective wide distribution techniques which best use existing factor endowments

Persons responsible for project implementation will use the most appropriate analysis techniques available to their disciplines (primarily the social sciences) to understand the rural development problems facing Missions and LDSs. In their advisory and in-country research work they will utilize techniques most suitable for replication under the conditions found in cooperating countries. The project will have no direct environmental i

B. Financial Analysis and Budget Plan

1. ST/RAD Central Funds

This will be a 4-year project to begin during FY 1982. The core funding for the project, to be provided through ST/RAD, would equal $300,000 annually for the first year, with a 10% annual inflation increment over each of the 3 succeeding years yielding a total of $1.392 million. This will support a life-of-project core capability within the cooperator institution(s). It is also intended to provide for most of the anticipated dissemination activities and a large part of initial reconnaissance trips made in expectation of establishing long-term field interventions within individual host countries.

2. Mission Funding Contributions

Additionally, the bulk of in-country mission service efforts will be funded through amendments to the ST/RAD cooperative agreement by individual USAIDs (or, conceivably, A.I.D. regional bureaus) whose local projects are being served through the proposed central project. This financing is estimated as follows:

a. Long-term field demonstrations of perhaps two years' duration each in as many as four countries. While the strict allocation of these expenditures is to be negotiated between ST/RAD and each of the individual missions, it is generally expected that the USAIDs will finance all in-country costs and international travel beyond the initial reconnaissance trip. The mission cost of such interventions might be between $250,000 and $500,000 or more per intervention, depending upon the services desired. This equals mission "add-on's" of at least $1.0 to $2.0 million over life-of-project.

b. The demand for and opportunities for applied field research are difficult to estimate at this time. Two one-year activities costing perhaps $140,000 each are not excessive. This equals about $280,000.

c. Technical Assistance and training likewise depends on hard-to-predict local needs for innovative assistance as well as for the more traditional (though no less important) host-country rural credit assessments. At least four such assessments averaging $100,000-to-$150,000 each would be suggested by previous project experience (under the Rural Financial Markets cooperative agreement), plus perhaps an additional $400,000 for short-term technical assistance and training. This totals $800,000 to $1.0 million.

3. Funding Summary

Therefore, overall four-year project expenditure estimates for FY 82 through FY 86 are as follows (in millions of dollars)

ST/RAD Central Funds to support core activities including basic institutional funding, short-term project interventions, and dissemination of new knowledge).		$1.392
Mission (or Regional Bureau) Funding Contributions to the Cooperative Agreement		
Long-term field demonstrations of feasibility of savings mobilization under a variety of circumstances.	$1.000-to-$2.000	
Applied field research on economic and socio-cultural impediments to savings mobilization and improved credit delivery.	$0.280	
Technical assistance and training in savings mobilization techniques and improved credit delivery operations	$0.800-to-$1.000	
Total Mission Contributions:		$2.080-to-$3.280
TOTAL PROJECT AUTHORIZATIONS:		$3.472-to-$4.672

4. Budget

The estimated input budget from central funds is shown in Table 2. Th ST/RAD contribution to the new Cooperative Agreement totals $1.392 million over the 4-year life-of-project. Larger amounts of funding are alloted to the second and third years of the project, since the bulk of the long-term demonstration projects is expected to implemented during that period.

Table 2

put Budget $1,000 s)

	FY 82	FY 83	FY 84	FY 85	Total
Salaries & Wages (including fringe benefits)	103.0	148.1	145.3	95.2	492.5
Overhead	58.2	81.9	76.4	50.0	266.5
Consultants	52.5	77.0	79.0	53.8	262.3
Travel & Transportation (including domestic & international travel & per diem)	50.1	53.5	55.5	41.7	200.8
Other Direct Costs/Publications	35.3	39.5	43.8	51.2	169.8
Total	300.0	400.0	400.0	292.0	1,392.0

29

The new cooperative agreement will provide for the following types of support from central funds for the various types of project outputs:

Reconnaissance visits: Full support for short-term consultancies intended to establish the terms of, and to arrange for, future long-term demonstration projects and other applied research efforts in the field.

U.S.-based applied research and project management/administration: Full support for appropriate U.S.-based applied resrarch in the area of savings mobilization and related rural finance concerns and for required project management and administrative backstopping.

Short-term technical assitstance: Partial support (as available) for short-term technical assistance services to savings-related activities in the field.

Long-term field interventions: Partial support for long-term field interventions sponsored by USAID missions (or possibly by A.I.D. regional bureaus) as negotiated between ST/RAD and individual USAIDs (or regiona bureaus). Most in-country costs of these long-term activities will be expected to be financed from mission or regional bureau funds.

Dissemination: partial support for project knowledge-dissemination activities, with some costs of the proposed seminar/workshops to be funded by USAIDs and/or regional bureaus.

C. Economic Analysis

A strict economic analysis of a project of this nature is difficult for several reasons: Within A.I.D. R&D and mission activities it is impossible to appraise specific costs and benefits without data relevant to the actual field projects which will be assisted. Also, savings mobilization efforts will often function as components of multi-objective agricultural and rural development projects. The economic justification for these savings related aspects of such projects can therefore not be delineated from the other -- and sometimes larger -- components of those projects.

The field work proposed within this project seeks to test the technical and economic feasibility of savings mobilization interventions to improve the effectiveness of rural financial institutions. These activities should lead to an accumulation of financial capital in rural areas as a vehicle for development. There is evidence from A.I.D. and World Bank projects that improved savings mobilization does generate significant direct and indirec economic net returns. Projects carried out by both the World Bank and A.I.D. which have included savings and/or credit components have shown an ex ante economic rate-of-return greater than 15 percent.[7] A.I.D. projects in

---

[7] See the following publications of the International Bank for Reconstruction and Development (IBRD):

IBRD, "Project Performance Audit Report, India: Pubjab and Haryana Agricultural Credit Projects (Credits 203 and 249-IN)," Report No. 268 (Washington, D.C.: IBRD, October 5, 1979);

UD

Bangladesh and Peru, as noted earlier, also have demonstrated that savings can be successfully mobilized in the rural areas of low-income contries. All of these factors indicate the economic feasibility of the activities to be carried out under the proposed project. Furthermore, through increased resource mobilization and improved resource allocation, this project has greater potential for economic efficiency than have previous Agency rural finance projects.

D. Social Analysis

1. Project Beneficiaries

The direct beneficiaries of this project will be

a) the rural borrowers, especially small borrowers, enjoying access to the expanded credit generated through the this project, and

b) the local rural savers (essentially private households whose savings deposits will finance local credit expansion while providing a fair return on their savings.[1]

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

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

The *rural borrowers* of the newly generated funds -- local agricultural producers, non-farm enterprises, and consumers -- will benefit in several ways. First, although the formerly subsidized low rates of interest will be replaced by higher borrowing rates, it is expected that a substantially expanded amount of credit will be made available for lending to the targeted small producers. Indeed, the primary operational objective of the project is the generation of just such increased amounts of rural credit through the more effective mobilization of private savings.

Second, accompanying this increased availability of credit will be the improvement of credit delivery services through technical assistance and in-country training. Accordingly, borrowers should benefit from the diversified expansion of credit institution branch offices in rural areas and through accompanying improvement in rural financial services. While the primary interest of this project is savings mobilization, many difficult problems still exist on the credit delivery side. Accordingly, technical assistance to USAID Missions in credit delivery per se will also be available either by itself or, ideally, in conjunction with a savings-mobilization initiative.

Local *rural savers* clearly will also benefit from these interventions. The return on their accumulated savings will certainly rise once such funds are placed on account with a participating formal financial institution, since interest-rate incentives are the major device to attract such accounts in the first place. The placement of such savings in formal financial institutions should further provide some additional sense of security of funds on the part of rural savers. Finally, this increased participation by savers in formal financial dealings will enhance the local perspective on economic development in general while encouraging account holders themselves to seek loans for their own economic self improvement.

The <u>indirect</u> beneficiaries of the project include

a) the intermediate and final purchasers of the increased output resulting from the additional credit that is generated from the newly-mobilized savings;

b) the new employees whose jobs will be created by the expanded economic activity in rural areas; and

c) all local residents in those rural communities in which such expanded credit availability occurs, since the strengthening of formal rural financial institutions should enhance the overall development prospects of the entire community.

A very important aspect of this local economic development will be the expanded productive employment (and income) to be derived from the mobilization of additonal credit-from-savings. This employment generation element is particularly significant in rural areas of developing countries where added employment opportunities are not plentiful. Moreover, the proposed higher (ie., unsubsidized) lending rates suggest a shift away the distorted emphasis on capital-intensive production methods that naturally are favored by cheap credit regimes. Therefore, as higher lending rates encourage the use of more labor-intensive techniques, rural employment generation objectives will more fully be satisfied.

2. Project Impact

By working with A.I.D. Missions and LDC institutions to design and implement more effective rural financial policies and projects, this project will have an important impact on the ways in which rural financial insritutions perform in support of rural development objectives. In most LDCs, the number of persons who make decisions affecting the operations and performance of the formal financial insititutions is small. The types of information dissemination activities that are envisaged under this project woul results of evaluations, special studies, and in-depth applied research dealin with rural financial polices avaliable to these key decisionmakers. Additionally, planned dissemination activities will bring these perso including LDC decisionmakers and USAID personnel involved in rural financial activities, into close contact with researchers, consultants, and representatives of other donor agencies to facilitate a mutual exchange of ideas, information, and approaches.

This project will pay attention to ways of increasing the access of rura women as well as men to institutional financial services.[8] In many countries and regions, women not only play important roles as producers of agricultural and nonagricultural products but are often the managers of family budgets and play an important role in savings, borrowing, and investment decisions as well. In addition, they are often the managers of informal financial services and thus need to be taken into account both as suppliers as well as recipients of rural financial services.

---

[8] See Mayra Buvinic, Jennefer Sebstad, and Sondra Zeidenstein, "Credit for Women: Some Facts and Lessons" (Washington, D.C.: International Center fo Research on Women, August 1979).

PART IV: IMPLEMENTATION PLANNING

A. Indications of Mission Interest and Support

Following receipt of a cabled summary of the PID for this project, encouraging support for the proposed approach has come from a number of USAID Missions in Africa as well as Latin America. The former evidence is especially heartening, since it had initially been expected that Latin America would have generated the predominant Mission response to this project. Specifically, substantial Mission interest in supporting long-term field interventions was indicated by Sierra Leone, Sudan, Tanzania, Togo, and Zaire. In addition, Liberia expressed interest in potential participation, though funding availability appeared more problematic. In Latin America, Bolivia has cabled its strong interest in involvement with the project, and indirect evidence of potential interest exists for at least two or three other Missions in the region. In Asia, ST/RAD is informally aware of strong potential long-term activity in one country, and the likelihood is good for long-term involvement in at least two others.

To illustrate the depth of the agreement of these Missions with the character of the proposed project, it is worthwhile to cite some Mission responses to the PID summary cable:

> "USAID/Freetown regards subject project as extremely relevant and potentially very useful, and is interested in possibly taking advantage of services offered. There is no question that past approaches to rural credit have been less than successful. Access to credit on reasonable terms is a real problem in Sierra Leone. Attempts have been made to provide credit to farmers as part of production 'packages' being promoted by various development projects, usually at subsidized interest rates. The record for these credit schemes has been generally poor, with

> extremely high transaction costs relative to loan magnitude, low repayment rates, and much mutual misunderstanding. Substantive farmer involvement is generally lacking in these schemes, none of which are commercially viable. ... Our preference is to try to localize financial institutions to the extent possible, incorporating or co-opting traditional credit mechanisms." (Freetown 0383, 1982).

> "Our experience ... bears out the assumption that farmers possess large amounts of savings which are not funded into the banking system. ... USAID/T would welcome assistance via the [proposed] project. Applicable activities would be the applied field research on economic and socio-cultural impediments to rural savings and technical assistance and training in mobilization techniques and improved ... credit delivery." (Dar es Salaam 0442, 1982).

> "Mission feels certain that subject project's proposed activities would complement research performed to date on Bolivia's rural financial markets and greatly enhance effectiveness of institutions receiving aid assistance." (La Paz 6747, 1981).

> "Mission reviewed subject PID summary and feels that it is very interesting. We would agree that focusing efforts solely on rural credit demand and neglecting savings mobilization (supply of credit) exacerbates the rural credit problem Including savings mobilization as part of rural credit programs could tend to reduce governmental support for subsidized interest rate policies which are erroneously used to address the scarcity of rural credit. It would also help the rural community realize the linkage between locally generated savings and local demand for credit as well as between the cost of attracting savings and the interest rate charged to users of those savings." (San Jose 7393, 1981).

> "Over the longer term, ... resources for such credit will have to be increasingly mobilized in-country." (Khartoum 1361, 1982).

> "While interest rates soon to be a big factor in building savings volume, (the) overriding factor seems to be a good public relations program coupled with the availability of service. (Monrovia 1763, 1982). [This reinforces Adams' point on convenience of savings, as cited in II.A.2., above.]

t is especially encouraging to note from these responses that numerous issions are in close agreement with both the primary emphasis of this project nd with several of its more important details. Included among these are nterest-rate and quality-of-service incentives for savings mobilization, mphasis on locally-oriented rural financial institutions, and the esirability of pursuing applied field research on economic and socio-cultural mpediments to savings mobilization (particularly in the African setting).

B. Implementation and Management

There are two key ingredients in planning for implementation of this project. One involves the need for involvement of regional bureaus in project operations. The other involves the need for a flexible and collaborative approach to involving university sources of expertise and to evolving specific applied research and consulting activities. These two ingredients are related in that regional bureaus and Missions should be the primary demenders of applied research and consulting and, therefore, should be responsible -- in collaboration with ST/RAD and Ohio State University -- for specifying allocation of effort under the project.

The implementing mechanism for this project will be a Cooperative Agre with The Ohio State University (OSU) which will permit OSU to carry out the specified tasks as agreed upon with interested Missions and as selected from experience with other elements of the project.

It is clear that other A.I.D. offices are involved either currently in activities that are related to some of those to be undertaken here or have been involved in related activities at some time in the past. Therefore, it is essential that effective liaison and coordination be programmed into the effort. Dupplication of effort and unproductive overlaps with related undertakings are to be avoided. However, this does not mean that, to in orde to avoid overlap or some marginal duplication, ST/RAD should forego fresh iterations of a critical problem area or a new approach to the subject when that could produce either a knowledge breakthrough or at least a fresh articulation of existing knowledge of in more usable form for development practitioners. Therefore, it is essential that continuous coordination be built into the project to maximize its usefulness and cost effectiveness to the Agency.

Management responsibilities for operations under the project are vested in ST/RAD. The responsibilities for monitoring and managing the activities in the problem area well be assigned to a member of the ST/RAD professional staff who has both interest and expertise in this field. The project officer will not only coordinate and monitor the activities of the cooperating unversity but will also be involved in the substantive concerns of the project and will work in a collegial manner with the university cooperator to determine the scope and direction of issues papers and in-depth applied research.

C. Workplans and Evaluation

Project workplans will be prepared by the cooperating university and submitted to ST/RAD for approval on an annual basis. These documents and all other required supporting information -- as specified by ST/RAD -- will conform to the emerging needs of the Agency and the requirements of the project.

A formal evaluation of the project will be held midway through the life-of-project period at the beginning of the third year of the project period. This evaluation will be conducted in accordance with standard Agency practice for such activities and will serve to determine the focus, direction, and Agency funding of the project during its final two years of implementation.

A final evaluation of the project will also be conducted. This will be a general evaluation intended to determine the effectiveness and technical feasibility of mobilizing private savings in adequate amounts to meet the financial capital needs of rural borrowers through mechanisms like those initiated under the savings mobilization demonstration projects. This final evaluation will be based in part on the record of project activity within the different A.I.D. missions or regions and will include considerations such as the following: How many interventions were made under project auspices? What was the nature of those interventions? What is the record of implementation effectiveness of the activities designed and.or implemented under project auspices? How do these responses compare with the record of projects implemented under the more traditional approaches to the improvement of rural finanacial markets?