

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

EL SALVADOR

**“CON MI REMESA YO AHORRO”
REMITTANCES AND SAVINGS PROGRAM**

(ES-M1051)

DONORS MEMORANDUM

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PROJECT SUMMARY
“CON MI REMESA YO AHORRO”
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According to El Salvador's 2013 Multipurpose Household Survey, around 20% of Salvadoran households receive remittances from abroad, and women head 43.6% of remittance-recipient households. Half of remittance-recipient households receive less than US\$279 per transfer. Despite the significant number of Salvadorans who receive some or all of their monthly income from remittances in the form of regular payments, the greater part of these flows are paid out in cash at teller windows rather than via account deposit at a formal financial institution. In a 2013 MIF survey of 189 Salvadoran migrants in the United States, 100% of respondents reported that their relatives collect the remittances in cash at a teller window, while none of those surveyed indicated that remittances are received in a bank account. In fact, only 2.8% of remittance-recipient households report saving their remittances.

This is due to the fact that financial intermediaries often do not view remittance services and cross-selling of other financial products as a profitable business. Furthermore, many institutions that make payments are unaware of the needs and preferences of these unbanked clients who regularly receive remittances through points of sale. The absence of suitable distribution channels for offering financial products and services in rural areas also makes it difficult to encourage formal savings among remittance recipients. Approximately 39% of the population of El Salvador lives in rural areas, where 36.0% of the rural population lives below the poverty line, compared to 29.6% nationwide.

Through the proposed project, Banco Davivienda Salvadoreño will increase access for Salvadoran remittance clients to savings and insurance products by designing and implementing a digital wallet product and expanding an existing network of nonbank correspondents. In addition, the project is expected to create savings habits through a contractual savings product that encourages regular, easy-access use by means of new distribution channels. This project is part of the MIF Regional Facility on Remittances and Savings (RG-M1216) and will be the first project with a digital wallet for remittance recipients to be approved as part of the program.

The project will benefit 17,000 remittance recipients in El Salvador who will become users of at least one financial product offered as part of this project. The impact is expected to be greater on beneficiaries residing in the departments of Usulután, San Miguel, La Unión, La Libertad, San Salvador, and Santa Ana. Approximately 75% of remittance-recipient beneficiaries are expected to be women, and 73% are expected to be residents of rural areas. The project will also indirectly benefit 63,000 members of households headed by remittance-recipient clients of Banco Davivienda.

ANNEXES

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AVAILABLE IN THE DOCUMENTS SECTION OF THE MIF'S PROJECT INFORMATION SYSTEM

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ABBREVIATIONS

DIGESTYC	Dirección General de Estadística y Censos [General Directorate of Statistics and Census]
DNA	Diagnostic needs assessment
IDB	Inter-American Development Bank
MIF	Multilateral Investment Fund
PAPTN	Plan de la Alianza para la Prosperidad del Triángulo Norte [Plan of the Alliance for Prosperity in the Northern Triangle]
PSR	Project status report

EXECUTIVE SUMMARY
“CON MI REMESA YO AHORRO”
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(ES-M1051)

Country and geographic location:	El Salvador, all 14 departments with a particularly large presence in Usulután, La Unión, San Miguel, San Salvador, La Libertad, and Santa Ana.		
Executing agency:	Banco Davivienda Salvadoreño, S.A.		
Access area:	Access to Finance		
Agenda:	Savings, Payments, and New Distribution Channels		
Coordination with other donors/Bank operations:			
Direct beneficiaries:	17,000 Salvadoran recipients of remittances, 75% of whom are women and 73% of whom live in rural areas. It is estimated that approximately 32% live below the poverty line.		
Indirect beneficiaries:	63,000 members of households headed by remittance-recipient clients (assuming an average household size of 4 people).		
Financing:	Technical cooperation:	US\$465,255	48%
	Investment:	US\$000,000	
	Loan:	US\$000,000	
	Total MIF contribution	US\$465,255	48%
	Counterpart:	US\$506,505	52%
	Total project budget	US\$971,760	100%
Execution and disbursement periods:	48 months for execution and 54 months for disbursements.		
Special contractual conditions:	As a condition precedent to the first disbursement, the executing agency will submit: (i) evidence that it has recruited the project coordinator; and (ii) Operating Regulations approved by the Bank.		
Environmental and social impact review:	This operation has been pre-evaluated and classified according to the requirements of the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703). Given the limited impacts and risks, the proposed category for the project is "C."		
Unit with disbursement responsibility:	This project will be supervised by the Bank's Country Office in El Salvador, which will be responsible for making disbursements.		

I. BACKGROUND AND RATIONALE

A. The Regional Facility on Remittances and Savings (RG-M1216)

- 1.1 **Objectives and components of the Regional Facility on Remittances and Savings.** In October 2012, the Donors Committee approved nonreimbursable regional technical-cooperation funding for the “Regional Facility on Remittances and Savings” (RG-M1216) via document MIF/AT-1204. The general objective of the program is to make financial products and services tailored to low-income populations in Latin America and the Caribbean more readily available. The specific objective is to support the design of business models to develop and offer liquid and contractual savings products targeted to international remittance clients to help reduce their vulnerability. The program has the following components: (i) facility setup and project selection; (ii) funding of individual projects; and (iii) knowledge and communication. The total cost of the program is US\$7,956,400, with the MIF contributing US\$4,822,110 (60.61%) in nonreimbursable resources.
- 1.2 **Project identification.** The program, known in Latin America and the Caribbean as the Remittances and Savings Program, issued a third call for expressions of interest in 2014 for projects in Guatemala, El Salvador, and Honduras, and 13 institutions expressed interest in participating.¹ All three of the ideas preselected and evaluated by the program team, in coordination with MIF staff at Headquarters and the Country Offices,² were approved by the Advisory Committee to advance to the project design phase, including the idea for this project. This is the fourth project submitted for approval under the Remittances and Savings Program.
- B. **Diagnostic assessment of the problem to be addressed by the project**
- 1.3 **El Salvador and remittances.** According to the Central Reserve Bank, El Salvador received US\$4.2172 billion in remittances from migrants in 2014. The remittance flows into El Salvador increased by more than 6% from 2013, indicating the persistent importance of family remittances there.^{3 4} This amount represents 17% of the country’s GDP. The majority of international remittances are sent from the United States, the main destination of Salvadoran migrants, where the more than 1.2 million Salvadorans represent 88.8% of the total

¹ As of September 2015, three projects had been approved: PR-M1028, HO-M1045, and HA-M1051. The Regional Remittances and Savings Program is expected to cofinance a total of 10 projects.

² The criteria used were: (1) Organization: (a) the organization’s financial and technical capabilities and track record; and (b) experience in project execution and offering financial products and services in the region. (2) Proposal: (a) relevance of the proposal for the problem to be addressed; (b) alignment with program objectives; (c) innovative features; (d) scalability of the initiative or potential for replication. (3) Sustainability: (a) cost-benefit ratio of the project idea; and (b) operational and financial sustainability of the proposal, considering the financial soundness of the institution.

³ <http://www.laprensagrafica.com/2015/02/19/crecen-las-remesas-de-salvadoreos-que-viven-en-eua>

⁴ Maldonado R., M. Hayem. “Remittances to Latin America and the Caribbean in 2013: Still below pre-crisis levels.” MIF, IDB. Washington, D.C., 2014.

Salvadoran population abroad.⁵ Individuals of Salvadoran origin constitute the sixth largest immigrant group in the United States.⁶

- 1.4 According to El Salvador's 2013 Multipurpose Household Survey, around 20.28% of Salvadoran households receive remittances from abroad. While there are remittance-recipient households throughout the country, the departments receiving larger percentages of international remittances are San Salvador (18.9%), San Miguel (13.5%), Usulután (10.7%), La Unión (8.8%), Cabañas (8.4%), Santa Ana (7.8%), and La Libertad (7.5%).⁷ The average remittance amount per transfer is approximately US\$279.⁸ Women head 43.6% of remittance-recipient households.⁹
- 1.5 Of these households, 21.6% live below the poverty line (3.6% in extreme poverty, and 18.0% in relative poverty).¹⁰ By comparison, 29.6% of households nationwide live in poverty.¹¹ There is no significant difference in remittance-recipient households living in poverty between those headed by men (21.7%) and those headed by women (21.6%).¹²
- 1.6 The vast majority of remittance-recipient households (83%) report spending their remittances on consumption. Other common uses include education expenses (7.8% of households) and medical expenses (3.9% of households). Only 2.8% of households report saving their remittances. There are variances in the use of remittances depending on the gender of the head of household:¹³ 87% of households headed by men spend their remittances on consumption, compared to 79% of women-run households. More women-run households tend to use remittances for education expenses (10.7% vs. 4.6%), but when it comes to households that use remittances for savings, there is not much difference between men and women (2.3% vs. 3.2%).¹⁴
- 1.7 **Problem to be addressed.** Despite the significant number of Salvadorans who receive some or all of their monthly income from remittances in the form of regular payments, the greater part of these flows are paid out in cash at teller

⁵ Center for Latin American Monetary Studies (CEMLA). "El perfil de la población de origen salvadoreño en Estados Unidos" [Profile of the population of Salvadoran origin in the United States]. Program for the Application of General Principles for Latin America and the Caribbean Remittance Markets. Mexico City, February 2013.

⁶ Ibid.

⁷ External Sector Department, Economic Statistics Office. *Perfil de los remitentes salvadoreños y caracterización de las remesas familiares desde Estados Unidos* [Profile of Salvadoran remittance senders and characterization of family remittances from the United States]. San Salvador, September 2015.

⁸ Ibid.

⁹ Dirección General de Estadística y Censos [General Directorate of Statistics and Census] (DIGESTYC). Multipurpose Household Survey 2013. Delgado, June 2014.

¹⁰ Ibid.

¹¹ IFAD. http://www.ruralpovertyportal.org/country/statistics/tags/el_salvador

¹² DIGESTYC. Multipurpose Household Survey 2013. Delgado, June 2014.

¹³ Although only 2.8% of recipients report setting their remittances aside as savings, they may still save income obtained from other sources, such as a paid job, a microenterprise, or farming. More information is needed on the savings habits of this population.

¹⁴ DIGESTYC. Multipurpose Household Survey 2013. Delgado, June 2014.

windows rather than via account deposit at a formal financial institution. In a 2013 MIF survey of 189 Salvadoran migrants in the United States, 100% of respondents reported that their relatives collect the remittances in cash at a teller window, while none of those surveyed indicated that remittances are received in a bank account.¹⁵

- 1.8 Many financial institutions involved in the remittance market limit such involvement to payment services, acting as paymasters for remittance companies and paying out cash, without looking at other potential financial needs of remittance clients. Most institutions do not offer other products or services or target marketing efforts to this group or provide financial education. Countrywide, only 36.7% of adults have a bank account. The percentage is even lower among Salvadoran women, only 31.9% of whom have a bank account. Of Salvadorans living in rural areas, 31.5% have a bank account.¹⁶
- 1.9 Without savings accounts, remittance recipients are unable to grow their savings through a secure formal instrument. The lack of formal account products tailored to this population segment also limits its access to other products and services that could save money and time, such as automatic deposit of remittance payments and use of bank automatic teller machine (ATM) networks for more efficient remittance collection.
- 1.10 *Causes of the problem.* This is due to the fact that financial intermediaries often do not view remittance services and cross-selling of other financial products as a profitable business. Furthermore, many institutions that make payments are unaware of the needs and preferences of these unbanked clients who regularly receive remittances through points of sale. It is worth noting that 57.5% of Salvadorans saved during the past year but only 14.0% of the population saves at a formal financial institution.¹⁷ These figures suggest that there is a propensity to save but that the formal financial products currently available in the market are not suited to the needs and preferences of the general population.
- 1.11 Another reason why financial intermediaries do not perceive remittance clients as a potential business opportunity is the high level of inactivity of many of these clients (that is, their infrequent use of these products and services) in the absence of suitable channels. Approximately 39% of the population of El Salvador lives in rural areas, where 36.0% of the rural population lives below the poverty line, compared to 29.6% nationwide.¹⁸ Establishing points of service for financial institutions under a traditional (branch) model is costly and often not profitable due to the low density of potential clients in the rural population. In many cases, recipients of remittances who live in rural areas need to travel to the closest urban center in order to collect their remittance or access any financial product. According to Banco Davivienda Salvadoreño, 73% of its remittance-recipient clients live in rural departmental areas.¹⁹ The lack of channels tailored to

¹⁵ Unpublished MIF data, 2013.

¹⁶ World Bank. *The little data book on financial inclusion 2015*. Washington, D.C., 2015.

¹⁷ Ibid.

¹⁸ IFAD. http://www.ruralpovertyportal.org/country/statistics/tags/el_salvador

¹⁹ Interview, April 2015.

these population segments results in low levels of use of savings products, once they are in place.

- 1.12 *Effects of low use of savings.* Families living near or below the poverty line, as is the case with most remittance recipients, have limited and sometimes intermittent sources of income. They use those funds, including money transfers from relatives or friends abroad, to cover the cost of their immediate daily needs, such as food and transportation. When larger needs arise, family savings become crucial. Savings are a key mechanism for reducing family vulnerability and a means of making future investments in health, education, the home, or business.
- 1.13 Savings are a key ingredient for the financial inclusion of low-income groups, enabling them to handle short-term liquidity for convenience and security and to build up assets to cover future needs. MIF experience indicates that many remittance-recipient families tend to save money informally, outside the formal financial system. However, informal savings have major drawbacks for low-income households: keeping money at home is often unsafe, especially in El Salvador, where the crime rate is high; savings in kind (for example, land or jewelry) have differing degrees of liquidity; and informal savings do not facilitate access to other financial products such as loans.
- 1.14 The MIF's experience shows that low-income individuals in El Salvador have the ability to save, once presented with the right products and channels. For example, under the project, "Financial Inclusion of Government Payment Recipients" (ATN/ME-13256-ES), the executing institution took in US\$212,053 in savings from some 5,740 beneficiaries of government payments.
- 1.15 *Proposed solution model.* The proposed project will increase access for Salvadoran remittance clients to savings and insurance products by designing and implementing a digital wallet product²⁰ and expanding an existing network of nonbank correspondents. In addition, the project is expected to create savings habits through a contractual savings product that encourages regular, easy-access use by means of these new distribution channels. This project has been selected because the digital wallet model offers a new solution to the barriers preventing quick, convenient access to formal financial products for remittance recipients in El Salvador, especially in rural areas. This solution is new in the Salvadoran context due to the recent creation of an enabling regulatory framework for such activities. Banco Davivienda is very well positioned for delivering this solution to the Salvadoran market following the success of its digital wallet model in Colombia.
- 1.16 *Emerging regulatory framework.* The Central Reserve Bank of El Salvador is committed to promoting financial inclusion in the country. As of the date of this document, the Law to Facilitate Financial Inclusion has been approved. On

²⁰ The digital wallet is a cellular application that allows clients to access their Davivienda products and perform a variety of financial transactions from their mobile phone. Through the digital wallet, remittance clients will be able to deposit their remittances directly into their bank account without having to disclose their account number to the migrant sending the remittance. These digital wallets will be linked to a bank account and supported by a network of nonbank correspondents, where the clients may also perform bank transactions. The digital wallet has no minimum balance or maintenance charge. Remittances will be received at no cost to the beneficiary, but other financial transactions may carry a fee (e.g., sending domestic remittances from the digital wallet).

13 August, 2015, the Legislative Assembly passed this law, which seeks to foster financial inclusion, as well as encourage competition in the financial system and lower costs for system users and clients, by establishing minimum regulations regarding: (a) requirements for the establishment, authorization, operation, capital, and security for e-money providers and grounds for revocation of their license; (b) requirements to be met by banks, cooperative banks, and savings and loan associations that provide e-money, and legal consequences for failure to do so; (c) generation and use of e-money, and the entities that may provide it; (d) taking savings deposits and opening savings accounts by means of simplified procedures, to foster use of the banking system among the country's low-income population and those living far from the traditional points of service of banks, cooperative banks, and savings and loan associations; (e) control of the amount of e-money administered through the electronic platform; (f) laying the groundwork for public policy-making to promote financial inclusion. The Law to Facilitate Financial Inclusion will enter into effect eight days after publication in El Salvador's official gazette, El Diario Oficial, which is expected in the second half of September 2015. This law and its implementing regulations are expected to drive financial inclusion, so this project is a timely initiative in the new legal setting. Generally speaking, enactment of the law is oriented toward promoting financial inclusion and competition in the financial system, as well as lowering costs for system users and clients. From that standpoint, it lays the groundwork for development of the digital wallet.

- 1.17 Whereas the Salvadoran cooperative bank system has been very active in attracting remittances, due in part to two previous MIF projects (ATN/ME-10169-ES and ATN/ME-7886-ES), commercial banks have played a limited role in the past five years. This was partly a result of the acquisition of the country's largest banks by foreign companies that sought to limit their involvement in the remittance market, particularly at the height of the financial crisis. Other donors supporting remittance projects have in recent years stopped working in El Salvador. For example, the International Fund for Agricultural Development (IFAD) is already strategically focused on other countries of the region, such as Haiti, and the Pan-American Development Foundation (PADF), which used to operate the Manos Unidas por El Salvador [Joining Hands for El Salvador] program to support diaspora activities in El Salvador, has abandoned this line of work.

C. Project beneficiaries

- 1.18 The project will benefit 17,000 remittance recipients in El Salvador who will become users of at least one financial product offered as part of this project. The impact is expected to be greater on beneficiaries residing in the departments of Usulután, San Miguel, La Unión, La Libertad, San Salvador, and Santa Ana.
- 1.19 **Gender.** An estimated 75% of the project beneficiaries will be women recipients of remittances. Although the majority of beneficiaries will be women, more information is needed in order to assess the specific barriers faced by this population. Thus, products and awareness campaigns will be designed using information obtained from market studies, with the results broken down by gender as part of the analysis. The monitoring indicators will also be disaggregated by gender.

D. Contribution to the MIF mandate, Access Framework, and IDB strategy

- 1.20 This project and others replicating its lessons learned will help to reduce poverty in Latin America and the Caribbean, because it will lessen the vulnerability of households receiving remittances in El Salvador in the short term and promote investments in productive activities and human capital in the long term. The project promotes access to savings and credit for low-income remittance clients, particularly in rural areas and in women-led households, and encourages the ongoing use of savings products, building the habit of saving. The savings accumulated by project beneficiaries are expected to contribute to greater investments in housing, health, and/or education. These savings can also be used to finance emergencies caused by robberies, illnesses, or natural disasters, without the beneficiaries having to go into debt. This project will also contribute to development of the private sector by increasing its capacity to offer savings, lending, and insurance products and services tailored to these groups, expanding its savings portfolio making inclusive financial products and services more accessible through a mobile wallet.
- 1.21 **Link to the Agenda.** This project is part of the set of 10 projects to be financed through the Regional Facility on Remittances and Savings (RG-M1216) under the Agenda for Savings, Payments, and New Distribution Channels, which promotes the expansion and use of financial services by the unbanked and underbanked in the region. This will be the first project submitted for approval under the program that ties the use of a digital wallet to the processing of remittances through banks. The project will contribute to the agenda's indicators related to: (i) increasing the number of payment clients—in this case remittance clients—who have access to savings products and use them; and (ii) increasing the use of new distribution channels to facilitate access to financial products and services.
- 1.22 **Cooperation with the IDB Group.** The project is consistent with the Bank's country strategy with El Salvador 2015-2019, still in the approval process, which states (in paragraph 3.2) that the private sector windows will participate in the priority areas of human capital and logistics infrastructure, and will also contribute to financing for small and medium-sized enterprises. It further states (in paragraph 3.26, "Dialogue areas") that dialogue will continue on productive and private-sector development issues, with emphasis on financial inclusion, the productive use of remittances, and business climate, in order to generate private investment. The program is also aligned with point 5, "Banking incentives," in the July 2015 concept paper, "Nuevas fuentes de financiamiento para el desarrollo productivo de El Salvador" [New sources of financing for productive development in El Salvador], which suggests that creating simplified, low-cost accounts for remittance recipients would make it possible, through the use of technology, to lower the transaction costs associated with offering financial services, reducing the cost to the financial consumer, which could be done in the context of the legislative initiative submitted by the Central Reserve Bank of El Salvador for the Law to Facilitate Financial Inclusion, which includes a National Strategy for Financial Inclusion. The Legislative Assembly passed this law in August 2015, as noted in paragraph 1.15 of this document. Points 6 and 7 of the "New sources of financing" concept paper list MIF actions for 2015, including this operation. In addition, the document "Áreas prioritarias para el FOMIN en El Salvador" [Priority

areas for the MIF in El Salvador] states in paragraph 26, “Financial inclusion,” that action will be taken to improve the operation of regulated and unregulated institutions, create new financial products and services, and provide financial education to their clients, and acknowledges that remittances continue to be an importance source of resources for vulnerable populations.

- 1.23 In general, this project encourages the accumulation of assets that will be used for investments in health, education, and housing and therefore is aligned with the IDB objectives of expanding access to health and education services and creating access to decent housing. It is also worth noting that some of the municipios targeted under the technical cooperation operation have also been selected under the Plan of the Alliance for Prosperity in the Northern Triangle (PAPTN), currently being developed by the Bank. Once aspects of the PAPTN such as the resource execution mechanism, the monitoring and evaluation system, and the arrangements for civil society coordination and participation have been defined, the mechanisms and actions for building on the two initiatives can be established.
- 1.24 **Innovation and knowledge.** This project will develop innovations in financial products and services and methodologies for building the habit of saving among remittance clients. The knowledge products generated through this intervention will be financed under component III of the Regional Facility on Remittances and Savings (RG-M1216), whose objective is to capture, systematize, and communicate the lessons learned from the project. This project will contribute to the knowledge generated by the program by answering the following research questions, among others: (i) Is the digital wallet an effective tool for achieving regular use of savings products in rural areas? and (ii) Does financial education accelerate the rates of acceptance of new products and technologies? The knowledge products to be developed include a project fact sheet that describes the project objectives, activities conducted, outcomes, and lessons learned.

II. OBJECTIVES AND COMPONENTS

A. Objectives and intervention model

- 2.1 The project’s expected impact is to help reduce the economic vulnerability of international remittance clients (particularly women, who will account for 75% of the expected beneficiaries), focusing on rural areas of El Salvador. This will be achieved by improving their livelihoods through regular savings at a financial institution. The outcome objective is to increase access to savings and its use by international remittance clients in El Salvador through products and services tailored to that population.
- 2.2 These products will be offered by Banco Davivienda Salvadoreño S.A. (Davivienda), a remittances paymaster that currently holds a 6.4% share of the remittance market in the Salvadoran financial system (3.6% of total remittance

- inflows to the country).²¹ Davivienda performs an average of 45,000 individual remittance transactions per month, reaching an estimated 28,000 remittance recipients. Of these, 46% are clients of some Davivienda product, and 54% use only the bank's remittance service. The average remittance amount received by Davivienda users is US\$261 per transaction. Davivienda has agreements in place with two international remittance companies: Bancomer Transfer Services and Dolex.
- 2.3 Currently, two thirds (76%) of the remittances paid by Davivienda are delivered in cash at teller windows, despite the fact that almost half of the remittance clients have another financial product at the bank. The 24% of remittances delivered through a credit to an account are divided into two types of deposit. The first comprises 13% of Davivienda remittance recipients, who receive a direct deposit into their savings account on instructions issued by the migrant abroad when sending the remittance. The second comprises 11% of recipients, who use an interactive voice response (IVR) system to direct their remittance to a savings account in their name. Under this second modality, clients have the option of using a series of automated voice messages to indicate to the bank that they wish to deposit their remittance into their account. However, Davivienda estimates that only 4% of the total volume of remittances paid becomes client savings.
- 2.4 In terms of remittances paid out at teller windows, 48.7% of the payments made by Banco Davivienda are delivered at branches located in three departments: San Salvador (22.5%), San Miguel (14.6%), and Usulután (11.7%). However, these payments do not necessarily reflect the locations of the clients, many of whom travel from rural areas to urban centers to collect their remittance.
- 2.5 *Intervention model.* Banco Davivienda proposes a plan to promote access to finance for their remittance clients, particularly those living in areas not covered by the bank's branch network, by: (1) developing and marketing a digital wallet; and (2) cross-selling products tailored to remittance recipients, including a contractual savings product and at least one insurance product.
- 2.6 Banco Davivienda proposes using **digital wallets** to provide the general public with access to financial services, considerably benefitting remittance recipients living in areas not covered by the bank's branch network who would be able to collect their family remittance and use it at their convenience. The digital wallet allows clients to access their Davivienda products and perform a variety of financial transactions from their mobile phone. With the digital wallet, remittance clients will have the ability to deposit their remittances directly into their bank account without disclosing their account number to the migrant sending the remittance. These digital wallets will be linked to a bank account and supported by a network of nonbank correspondents where the clients may also perform bank transactions using their digital wallet, including but not limited to deposits and withdrawals and cash withdrawal of remittances. This tool brings Davivienda

²¹ Although Banco Davivienda currently accounts for only 6.4% of the market, it has a long history of working with migrants in the United States and with remittance recipients in El Salvador as Banco Salvadoreño prior to the latter's acquisition by HSBC and later by Davivienda. At the time, Banco Salvadoreño operated its own remittance agency in the United States, and many of the staff familiar with that model are now at Davivienda and will be involved in this project.

services closer to clients, thus ensuring regular use of their accounts over time. The introduction of the digital wallet in these communities will be supported by an awareness strategy to show that use of the digital wallet will offer the remittance recipient population a more comfortable experience when performing financial transactions.

- 2.7 In order to function, this model requires a functional ecosystem for the digital wallets to operate. This involves setting up a critical mass of nonbank correspondents in the target areas so that clients can perform their transactions and purchases in conveniently close locations. Once Davivienda has created a functional ecosystem in rural areas for implementation of its digital wallet, it will embark on a campaign of cross-selling tailored financial products to remittance recipients. The products offered will be a **contractual savings product** and other **financial products, including an insurance product**.
- 2.8 *Contractual savings.* The contractual savings product proposed by Davivienda will be a separate account that the client may select in addition to the master transaction account in which remittances may be received. This savings account, known as DaBuenaVida, will have term options of 12, 24, and 36 months,²² and automatic deposits will be made into it on a monthly basis from the master transaction account in accordance with the client's savings plan. The product will encourage regular deposits by means of monthly raffles making any accountholder not in arrears on savings contributions eligible to win a cash prize. Davivienda has already designed this product, but is not yet marketing it. The MIF will be involved in linking this product to the digital wallet and marketing it together with awareness campaigns on the benefits of saving.
- 2.9 *Other financial products.* As part of this project, Davivienda will develop an insurance product tailored to remittance recipients. The final design of this product will be subject to the findings of a market study to be implemented during project execution. However, Davivienda proposes marketing a remittance insurance product that would cover remittance flows for a certain period of time in the event of the death or total disability of the remittance sender. Davivienda will also look into the feasibility of an insurance product offering protection against theft of the remittance.

III. COMPONENTS

- A. **Component I: Digital wallet development (MIF: US\$102,845; Counterpart: US\$90,415)**
- 3.1 The objective of this component is to create a technological tool to facilitate the financial inclusion of remittance recipients who live in rural areas not covered by the branch network of Banco Davivienda. This tool will take the form of a digital wallet accessible through a mobile phone. The digital wallet will allow clients to use their mobile phone to perform transactions, including directing their remittance to a savings product, checking balances, or making payments.

²² This product carries different rates of interest depending on the savings term option: 1% annual yield for a 12 month term, 1.25% for 24 months, and 1.5% for 36 months. These rates are subject to change and final approval by Davivienda.

- 3.2 Those living far from a Davivienda branch will have access to cash and be able to make deposits through a network of nonbank correspondents. This network creates an important ecosystem to ensure the success of the digital wallet, enabling users to perform transactions and deposit and withdraw cash in their own communities without having to visit a branch. The network will lower the client's transportation costs and opportunity cost associated with collecting a remittance. In addition, correspondent agents will give these clients access to other financial products designed for remittance recipients as part of this project.
- 3.3 The network of nonbank branches may be managed by Red Multiservicios Akí, a division of the company SERSAPROSA (Servicio Salvadoreño de Protección) which supports the financial sector in El Salvador. Akí is composed of Banco Agrícola, Citi, Davivienda, and Scotiabank. Red Multiservicios Akí is an existing multiservice network that works with financial sector companies in the country, providing payment collection for public and private services; mobile phone and Internet recharge services; and financial correspondent services for multiservice banks. Its strategic plans include working with Davivienda in the coming years to expand Davivienda's network in areas with limited access to financial services and remittance recipient populations.
- 3.4 The component activities include technological development of the digital wallet and development of the required documents. This component will finance the following activities: (i) technological development through an external provider;²³ (ii) system testing; (iii) preparation of the client contract by an international legal advisor; (iv) preparation of an interactive user guide integrated into all of Davivienda's electronic channels (such as website, web kiosks, etc.); and (v) a market study to identify target communities for expanding the correspondent network. Issues such as technological preference and availability of the required technology will also be addressed, along with potential gender-based differences in technology preferences and access. The outcome of this component is a functional digital wallet integrated into all Davivienda systems.
- B. Component II: Digital wallet awareness strategy (MIF: US\$45,500; Counterpart: US\$226,400)**
- 3.5 The objective of this component is to develop an awareness strategy in order to speed up acceptance and use of the digital wallet by remittance recipients. To design this strategy, Davivienda will study the experiences and lessons learned of Banco Davivienda Colombia and its digital wallet product, DaviPlata. The DaviPlata product was launched in Colombia in 2011, and the knowledge transfer between Davivienda Colombia and Davivienda El Salvador will be important for the success of this component.
- 3.6 The best practices to be conveyed by Davivienda Colombia will include its experience in implementing consumer awareness and education campaigns aimed at expediting the product's acceptance in low-income consumer markets like those expected to benefit from the project in El Salvador. This component will include implementing an awareness plan through a team of outreach workers dealing with clients in the field to acquaint them with the benefits of saving and

²³ Since technology changes fast, a diagnostic assessment will be done at the outset to determine the best options for service providers and the latest in technological innovations.

how the digital wallet works. This plan will be key to overcoming any potential resistance to new technologies on the part of remittance clients.

- 3.7 The main activities to be financed under this component are: (i) development of an awareness strategy, including an internship in Colombia to gain familiarity with the experience of Davivienda Colombia, development of teaching materials, and training of trainers; (ii) design of advertising materials; and (iii) implementation of the strategy through a team of outreach workers. The strategy will take into account the needs and preferences of women remittance recipients, who will comprise a majority of the expected beneficiaries.

C. Component III: Cross-selling of products to remittance beneficiaries (MIF: US\$173,910; Counterpart: US\$141,690)

- 3.8 Once Davivienda has implemented the new distribution channels, the digital wallet, it will begin cross-selling other financial products to remittance recipients, with a focus on promoting savings through the contractual savings product DaBuenaVida. To achieve scale, this component will also involve adding at least two new international remittance companies in order to boost the volume of remittances paid by Davivienda and the number of potential clients.²⁴ This would double the number of partnering remittance companies from two to four.
- 3.9 The component activities are: (i) the addition of new remittance companies; (ii) a market study to determine the design of the financial products (savings, insurance, and digital wallet); (iii) development of insurance products; (iv) specific product promotions. By adding new remittance companies, Davivienda will boost its total remittance volume, thus gaining access to a larger market of remittance beneficiaries promote its products. The activity of adding new remittance companies includes hiring external providers for the technical design and development to integrate the proprietary platforms of the remittance companies with the bank's systems, as well as testing. In terms of insurance products, the remittance insurance will cover the recipient in the event of the death or total disability of the remittance-sending migrant, and will also cover the costs of repatriating the migrant's remains. Davivienda will also look into the feasibility of insurance product offering protection against theft of the remittance.
- 3.10 This component does not include development of the DaBuenaVida contractual savings product, which Davivienda has already designed but not yet marketed. The MIF will support the marketing of this savings product, along with activities to raise awareness of the benefits of saving. The products will be tied to the digital wallet as well as to the bank's other distribution channels. The market study and product designs will take information disaggregated by gender into account, seeking to satisfy the needs and preferences of women remittance recipients.

D. Project governance and execution mechanism

- 3.11 Banco Davivienda Salvadoreño will be responsible for execution of the project and meeting its objectives, establishing an execution unit and appointing a project coordinator who will report to the alternative channels manager at Davivienda. The project coordinator will be in charge of the execution unit's main functions during project implementation, which include: (a) preparing and

²⁴ Davivienda currently partners with two remittance companies, Bancomer Transfer Services and Dolex.

approving the annual work plan to be developed by the unit; (b) assessing progress on each component; (c) overseeing all administrative, financial, and procurement procedures with the assistance of the project administrative staff, who will manage the detailed financial/technical aspects of the project; and (d) preparing results reports.

- 3.12 The MIF staff in San Salvador will supervise the project and coordinate with the Regional Remittances and Savings Program team for monitoring and support on knowledge issues that contribute to achieving that program's goals, including gathering information and generating knowledge products.

E. Sustainability

- 3.13 After an initial investment in creating the digital wallet, the elements necessary to make this investment sustainable for Davivienda are expected to be in place when the MIF counterpart funding ends. Achieving a critical mass of digital wallet users is an important factor for the success of the project. As such, the digital wallet will provide access to multiple financial products with a view to boosting the volume of transactions through this channel. In addition, the project calls for adding new international remittance companies to increase the volume of remittances and the number of potential beneficiaries who could use these channels for their transactions.
- 3.14 Prior to the close of execution, a **sustainability workshop** will be held with all institutions involved, to identify the measures necessary to assure the continuity of project activities once the funding ends.

F. Lessons learned from the MIF or other institutions in project design

- 3.15 The MIF's more than 10 years of experience in remittances,²⁵ including projects to increase use of formal banking services for remittance clients implemented in countries like Bolivia, the Dominican Republic, Ecuador, El Salvador, Haiti, Honduras, Mexico, and Paraguay has demonstrated the importance for financial intermediaries of going beyond the simple payment of remittances and expanding the client base by creating financial products and services targeted specifically to the population that receives remittances. Those projects have also shown that remittances are a vehicle for integrating remittance clients into the financial system.
- 3.16 The experience of those projects has shone a light on a series of features that will be kept in mind during execution of the proposed project, including: (i) the importance of establishing a relationship of trust between the financial intermediary and the client, sometimes through financial education or other customer care programs, to ensure greater use of products adapted to this population; (ii) the importance of properly targeting and segmenting clientele so that the products developed, their marketing, and their distribution channels will reflect the segment's needs and preferences; (iii) the importance of somehow including all the links in the remittance value chain, from the point of sending the remittance to the point of receipt.

²⁵ "Diez años de innovación en remesas: Lecciones aprendidas y modelos para el futuro" [Ten years of innovation in remittances: Lessons learned and models for the future]. MIF, IDB. May 2010.

- 3.17 This project will also reflect the knowledge and lessons learned from the projects in execution under program RG-M1198, “Linking Social Protection Payments to Savings,” which seeks to develop and implement liquid and contractual savings products targeted to recipients of conditional cash transfers or other social protection payments in Latin America and the Caribbean. Projects approved under this program provide for the development and implementation of new distribution channels through correspondent agents. The lessons learned from this program, which has been incorporated into the design of this project, include the importance of appropriate deposit-taking channels in assuring regular use of savings products in this market segment. The projects show greater levels of activity when clients have suitable options for performing transactions on convenient terms. Taking this lesson into account, the project contemplates the use of nonbank branches as part of its business model.
- 3.18 Lastly, the implementation of this project will incorporate the lessons learned from the previous two remittance and financial inclusion projects executed by the MIF in El Salvador: “Remittances and Rural Development in El Salvador” (ES-M1002) and “Strengthening of Financial and Family Remittance Services for Low-income Groups” (TC-02-02-01-4). These lessons include: (i) given El Salvador’s dependence on the United States economy, any economic decline there could have an impact on the volume of remittances and the demand for products by recipients; (ii) it is important to have a mechanism in place for managing the system’s liquidity and advancing money to the points of payment until the remittance companies pay their fees; and (iii) the commitment and cooperation of the managers and heads of the institution’s various departments and divisions are important for the success of the project.

G. The MIF’s additionality

- 3.19 **Nonfinancial additionality.** The MIF will share the knowledge gained in its more than 10 years of experience with remittances and the development of financial products and services for underserved remittance clients. The strong knowledge component in the Regional Remittances and Savings Program, which will be used by the MIF to prepare migrant profiles, case studies of experiences in increasing the use of formal banking services, and other knowledge products, will also contribute to the implementation of this project. Other MIF knowledge products will contribute to the success of this project, including the study “Innovations in rural microfinance,”²⁶ which will contribute to the project’s strategy for rural clients.
- 3.20 This project will also have synergies with other, similar initiatives financed in the past by the MIF or implemented by other MIF partners. In addition, experience and best practices will be shared with other financial institutions that have implemented projects under the Regional Remittances and Savings Program, and others.
- 3.21 The MIF’s store of knowledge in the area of remittances will support this effort by Davivienda to reach remittance recipients and position itself in this niche so that it can later share this experience, which hopefully can be replicated by other

²⁶ “Innovations in rural microfinance.” MIF, IDB. January 2015.

- financial institutions in El Salvador and in the other Central American countries where Davivienda is active (Panama, Honduras, and Costa Rica).
- 3.22 The MIF's involvement will also help to ensure that the lessons learned from this intervention will be translated into knowledge products to benefit the remittance industry in general. It will also be possible to measure the impact of savings on remittance recipients, about which there is very little evidence thus far.
- 3.23 **Financial additionality.** The MIF's financial involvement is important for meeting the project objectives, since the required initial monetary investment, combined with the low initial return on investment, would prevent the executing agency from embarking on this initiative solely on the strength of its own resources. The MIF's financial participation will facilitate the creation of a rural ecosystem so that the executing agency can then take advantage of the country's new financial inclusion regulations on a sustainable basis.

H. Project outcomes

- 3.24 As an outcome of this project, 17,000 Salvadoran remittance clients will access at least one new savings product. Of these clients, 9,000 will access a contractual savings product. Of the remittance clients with a new savings product, at least 12,000 are expected to change their savings behavior, making at least one deposit per month into one of their products. Of the remittance clients with savings products, some 12,600 will actively use the digital wallet to perform transactions. Lastly, 3,000 remittance clients are expected to carry at least one insurance product. These projections are based on Davivienda's current portfolio of remittance clients, plus new bank clients enrolled during this project, based on prior experience with launching other products.
- 3.25 In line with the description of the client profile in the section on project beneficiaries, the breakdown of the remittance-recipient clients accessing the financial products developed under this project is expected to be 75% women and 25% men.

I. Project impact²⁷

- 3.26 The project's expected impact will be as follows: (i) at least 2,400 beneficiary households will see increases in their spending on housing, health, and/or education after using a savings product developed under this project; (ii) at least 3,200 beneficiaries will finance at least one emergency (theft, illness, death, natural disaster, etc.) using a savings product developed under this project; (iii) the proportion of income saved by project beneficiaries will rise by 20% (total saved/total income); and (iv) average annual savings per client will rise by 3%.

J. Systemic impact

- 3.27 Working with a commercial bank as sound and historically committed to Salvadoran remittance recipients as Banco Davivienda is expected to show that a holistic strategy that includes the use of low-cost distribution channels and the development of financial products tailored to the population can lead to profitable

²⁷ These indicators are based on the hypothesis that building up savings will enable the project beneficiaries to make larger investments in such things as housing, health, and education and will help to reduce their vulnerability measured by their ability to cope with emergencies.

- business models for clients in underserved rural areas, and can advance financial inclusion in the country, where just 36.7% of adults have an account at a formal financial institution.²⁸
- 3.28 Furthermore, Davivienda has an international presence, with operations in Colombia, Panama, Honduras, and Costa Rica, all countries which receive significant international remittance flows. In 2014, Colombia had over US\$4 billion in inbound migrant remittances, followed by Honduras with over US\$3 billion, Panama with US\$847 million, and Costa Rica with US\$559 million. Remittances are particularly important in Honduras, where they account for 18.6% of GDP.²⁹ Davivienda is very well positioned to take the lessons learned from this project and replicate them at its affiliated banks in these countries, creating a regionwide impact.
- 3.29 The learning generated by this project is expected not only to enable other institutions in Latin America and the Caribbean and elsewhere to replicate the model, but to demonstrate the importance of savings for the low-income population as well as the impact of technology use in creating habits with the potential to be brought to scale. In addition, the knowledge generated by this project is expected to contribute to the development of public policies to achieve greater financial inclusion in the region.

IV. MONITORING AND EVALUATION STRATEGY

- 4.1 **Baseline.** Using MIF funds, the executing agency will engage consulting services to establish a baseline and monitoring system based on the Logical Framework indicators. The baseline will compile information on the socioeconomic features of the beneficiaries and their financial behavior (access and use of financial products and services). The baseline will be broken down by gender and will serve as the point of comparison for compiling information at project-end to determine changes in the beneficiaries.
- 4.2 **Monitoring.** Davivienda will be responsible for gathering information and implementing the monitoring system designed when the baseline was prepared and for analyzing relevant information for the ongoing monitoring of project execution and the Logical Framework indicators (see Annex I). In terms of monitoring reports, Davivienda will be responsible for delivering project status reports (PSRs) to the MIF within 30 days after the end of each six-month period, or more frequently, on dates determined by the MIF with at least 60 days advance notice to Davivienda. The PSRs will contain information on project execution, milestones met, results obtained, and their contribution to project objectives as stated in the Logical Framework and other operational planning instruments. The PSRs will also describe project issues encountered during execution and outline possible solutions. Within 90 days after the end of the execution period, the executing agency will deliver a final PSR to the MIF that highlights results achieved, the sustainability plan, findings of the final evaluation, and lessons learned.

²⁸ World Bank. *The little data book on financial inclusion 2015*. Washington, D.C., 2015.

²⁹ <http://www.fomin.org/en-us/home/knowledge/developmentdata/remittances.aspx>

- 4.3 The IDB Country Office in El Salvador will be responsible for project monitoring and will have the MIF's support in the evaluations and the exchange of information and lessons learned from other, similar projects.
- 4.4 **Project evaluation.** Davivienda will provide information for a midterm and final project evaluation.
- 4.5 *Midterm evaluation.* Using project resources, the MIF will commission a midterm evaluation once 50% of its resources have been disbursed, or the midpoint of the execution period has been reached, whichever occurs first, to measure, at least: (i) progress on introducing the project's new financial products; (ii) progress on project activities; (iii) difficulties encountered and proposed solutions; and (iv) lessons learned and recommendations to improve the project and its replicability. The Logical Framework indicators will be borne in mind when measuring these items.
- 4.6 *Final evaluation.* A final evaluation, to be commissioned by the MIF, will be performed at the end of the execution period. In addition to the items assessed in the midterm evaluation, the final evaluation will include, at least, an analysis of: (i) the project's immediate impact on the beneficiaries; (ii) results achieved in comparison to the initial objectives; (iii) lessons learned; and (iv) sustainability of project actions. It will also analyze the profitability of the savings products offered as part of this project. The final evaluation will perform an exercise similar to the baseline exercise, compiling information on the beneficiaries to assess their situation before and after the intervention. The evaluation will not seek to answer questions of attribution, but will look at changes in the outcome and impact indicators and document the lessons learned.
- 4.7 The questions to be answered in the evaluations of this project include the following: Is the digital wallet an effective tool for achieving regular use of savings products in rural areas of El Salvador? Does financial education speed up the rates of acceptance of new products and new technologies? Has there been an increase in the percentage of income earmarked for certain areas, such as education, health, or housing, by the users of savings products? Do the remittance clients who are offered custom-tailored products prefer to save formally rather than informally? Do remittance clients who already have microenterprises and are offered a custom-tailored savings account save more and invest in their businesses? Are remittance clients who use savings accounts less vulnerable to contingencies, measured as a function of emergency financing (theft, illness, death, natural disaster, etc.) using a custom-tailored product? When remittance clients use custom-tailored savings products, do they continue the same consumption patterns? Are there differences in client behavior by gender? Do remittance-linked insurance products reduce the vulnerability of remittance-recipient households? Do clients who are offered a digital wallet come to perform most of their financial transactions electronically? Are there gender differences in the use of electronic channels? In addition, the evaluations will document variants in the savings products (marketing strategies, incentives, interest rate, ease of withdrawals, etc.) and in the awareness campaigns on the use of electronic channels for performing financial transactions that had to be introduced to meet the needs of this age group.

- 4.8 The indicators measured will include the degree to which the accounts are used by remittance clients, the amounts saved, their likelihood to meet the savings targets set for the contractual savings products, and the classification and frequency of transactions performed using digital wallets.
- 4.9 **Closing workshop.** At least three months before the project execution period ends, Davivienda will organize a **closing workshop** to be attended by the design team, the supervision team, and all beneficiary institutions, with the objective of jointly evaluating the results achieved, identifying additional tasks to guarantee the sustainability of the activities begun by the project, and identifying and disseminating lessons learned and best practices. The information generated by the evaluations mentioned in this section will form part of the knowledge to be shared with the different project audiences through the communication strategy to be financed with funds from the Regional Facility on Remittances and Savings (RG-M1216).

V. COST AND FINANCING

- 5.1 The total project cost will be US\$971,760, with US\$465,255 (48%) contributed by the MIF, and US\$506,505 (52%) by the counterpart. The execution period will be 48 months, and the disbursement period will be 54 months.

Cost Table (in US\$)

Components	MIF	Local counterpart	Total
Component 1: Digital wallet development	102,845	90,415	193,260
Component 2: Digital wallet awareness strategy	45,500	226,400	271,900
Component 3: Cross-selling of products to remittance beneficiaries	173,910	141,690	315,600
Executing agency/administration	48,000	48,000	96,000
Baseline, monitoring, and evaluation (midterm and final)	60,000		60,000
Audits	15,000		15,000
Contingencies	20,000		20,000
Total	465,255	506,505	971,760

VI. EXECUTING AGENCY

A. Executing agency

- 6.1 Banco Davivienda Salvadoreño is a for-profit, private-sector financial institution established in 1885. Its mission is to create value for its shareholders, clients, associates, and related parties, relying on the following strengths: client knowledge; risk management; technology and processes; innovation; corporate synergy; knowledge of the business; and emotional relationship management. In El Salvador, it has 56 branches, 13 collection and payment centers (“rapicajas”) in 29 municipios, and more than 225 automatic teller machines. Its head office is in Colombia. Internationally, Davivienda Colombia has been added to the Dow Jones Sustainability Index (DJSI), the world’s leading indicator of economic,

social, and environmental performance of publicly traded companies, created to recognize companies that meet the highest standards of sustainability worldwide.

- 6.2 Davivienda Salvadoreño was founded in the nineteenth century as Banco Salvadoreño and operated under that name until it was acquired by Banco Banistmo in 2006, subsequently by Banco HSBC, and then by Davivienda in 2012. As Banco Salvadoreño, it was a leader in the international remittance market. From 1986 to 2009, it operated BancoSal, a network of nonbank financial institutions in the United States that provided remittance-sending services directly to Salvadoran migrants. At its height, BancoSal had a total of 11 branches operating in the states of Texas, California, and Nevada. During that period, Banco Salvadoreño held a 12% share of the market for remittances to El Salvador. It also had a solid portfolio of transnational mortgage loans extended to Salvadoran migrants in the United States who invested in housing in their home country. This project is aligned with Davivienda's strategic objective of regaining its remittance market share, which declined over the past five years following the sale of BancoSal in the United States.
- 6.3 In 2009, Banco HSBC Salvadoreño S.A. received a US\$20 million line of credit from the IDB Group (ES-L1042) under the Trade Finance Facilitation Program. That operation was satisfactorily completed. In July 2015, Banco Davivienda Salvadoreño received IDB financing under the Diversified Payment Rights (DPR) Program, consisting of up to US\$60 million in financing from the IDB and US\$20 million from the China Cofinancing Fund for Latin America and the Caribbean (ES-L1094). That operation is now in execution.

VII. PROJECT RISKS

- 7.1 The following potential risks have been identified that could affect the project outcomes: (i) Reduction in the remittances flows into El Salvador owing to slowing of the United States economy and/or an increase in the number of Salvadoran migrants in the United States who return to their country of origin. **Mitigation measures:** Monitoring the volume of remittance payments handled by the remittance companies that partner with Davivienda and acquiring more remittance companies. (ii) Lack of coordination between regulatory and supervisory institutions, affecting the project. **Mitigation measures:** Ongoing communication with the leadership of the country's regulatory and supervisory institutions. (iii) Changes in the laws or regulations governing remittance payments in El Salvador that are adverse to the project. **Mitigation measures:** Ongoing communication with the leadership of the country's regulatory and supervisory institutions. (iv) Fear of crime in the country, keeping correspondent offices from opening. **Mitigation measures:** Feasibility study to identify security challenges and the best locations for correspondents. (v) Resistance from remittance clients to both savings and technology. **Mitigation measures:** Implementation of an awareness strategy, including financial education using materials tailored to the target audience on the benefits of saving and the use of digital wallets reflecting the preferences and needs of the beneficiary population, and creation of a network of agents to facilitate deposit-taking and regular use of the savings products.

VIII. ENVIRONMENTAL AND SOCIAL IMPACT

- 8.1 This operation has been pre-evaluated and classified according to the requirements of the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703). Given the limited impacts and risks, the proposed category for the project is "C."

IX. FULFILLMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

- 9.1 Since the diagnostic needs assessment (DNA) of the executing agency yielded a low level of need/risk, the project team has determined, as established in Appendix 4 of those policies, that the private-sector methods established in Annex I of the "Operating guidelines on procurement for nonreimbursable technical cooperation operations" (document OP-639) will be used by this private-sector executing agency. In addition, project procurement will be subject to ex post review on an annual basis. Prior to making a start on project procurement, the executing agency will submit the procurement plan to the MIF for approval. The plan will be updated annually and whenever a change occurs in procurement methods and/or the goods or services to be procured.
- 9.2 **Financial management and supervision.** The executing agency will establish and assume responsibility for maintaining effective financial accounts, internal control mechanisms, and record-keeping systems for the project, consistent with IDB/MIF financial management rules and policies. Since the DNA determined a medium level of need/risk for the financial management section, the documentation supporting disbursements will be subject to ex post review on a semiannual basis.
- 9.3 If considered necessary, a consultant will be contracted, using funds from the project, to train the executing agency in those aspects of procurement and/or financial management identified in the DNA as requiring strengthening. If needed, funds from the Contingencies budget line item may be used for this purpose.
- 9.4 The IDB/MIF will engage independent auditors to perform the ex post reviews of procurement processes and supporting documents for disbursements. The scope of the ex post reviews will include an analysis of the financial reports that the executing agency will prepare annually as part of its financial management. The cost of this contract will be financed from the MIF contribution, in accordance with Bank procedures.
- 9.5 During the project, the frequency of the ex post reviews of procurement processes and supporting documents for disbursements may be modified by the MIF based on the findings of the ex post reviews by the external auditors, and additional financial reports may be required.

X. ACCESS TO INFORMATION

- 10.1 **Access to information.** The information related to this project is not classified as confidential under the Bank's Access to Information Policy.