

**“MIF-IFAD PARTNERSHIP FACILITY FOR RURAL PRIVATE SECTOR DEVELOPMENT”  
LINE OF ACTIVITY**

**MULTILATERAL INVESTMENT FUND  
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**

**I. BASIC PROJECT INFORMATION**

|                              |  |                    |
|------------------------------|--|--------------------|
| <b>Country:</b>              | Guatemala  |                    |
| <b>Project title/number:</b> | “More than remittances” (GU-M1004)   |                    |
| <b>Project team:</b>         | Manual Orozco, MIF/IFAD Program Coordinator; María Victoria Sáenz (MIF/OPS); Yadira Dennis (MIF/OPS); Pedro de Vasconcelos (MIF/PPU), Nicole Rossell (COF/CGU); Maristella Aldana (LEG/OPR); and Michelle Lapointe (consultant). |                    |
| <b>Date of request:</b>      | January 2005   |                    |
| <b>Beneficiaries:</b>        | Immigrants in the United States living in Trenton, Los Angeles, Chicago, Houston and Washington, and their relatives in Quetzaltenango—some 1,200 people.  |                    |
| <b>Executing agency:</b>     | Cooperativa de Ahorro y Crédito Salcajá, R.L.  |                    |
| <b>Financing:</b>            | MIF Program (V-III)  | US\$198,000        |
|                              | IFAD   | US\$ 62,630        |
|                              | Counterpart  | <u>US\$ 91,510</u> |
|                              | Total  | US\$352,140        |

**II. PROJECT ELIGIBILITY**

- 2.1 The proposed project is considered eligible for MIF financing under the Small Enterprise Development Facility as part of the line of activity for the “MIF-IFAD Partnership Facility for Rural Private Sector Development,” given that it is designed to promote rural economic and financial development through the participation of low-income migrant communities who are also remittance recipients.
- 2.2 It is also eligible under component II, “Individual Projects,” in that it proposes specific actions directly related to deepening Guatemala’s financial system.

### III. BACKGROUND AND DEFINITION OF THE PROBLEM

- 3.1 In recent years Guatemala's rural population has benefited from the volume of remittances driven by increased migration. Eight percent of these remittances are sent to the area served by the Salcajá rural cooperative (Cooperativa de Ahorro y Crédito Salcajá R.L.). In 2004, the International Organization for Migration (IOM)<sup>1</sup> found that the departments of Quetzaltenango and Totonicapán receive 5.2% and 1.3%, respectively, of all remittances nationwide and contribute 6.3% and 1.5% of remittance senders.
- 3.2 Remittances processed by Salcajá cooperative come from the following cities, in descending order: Trenton, Houston, Chicago, Los Angeles, and Washington. Salcajá currently receives about 8% of all remittances sent to the departments to be covered by the proposed project (Quetzaltenango and Totonicapán).
- 3.3 Salcajá has a direct relationship with the relatives of immigrants in the United States and with formal and informal organizations of immigrants there. This gives it a thorough understanding of the problems faced by immigrants in the United States and by their families in its region of influence. Salcajá has close ties to other cooperatives, associations, and nongovernmental organizations that provide microcredits in the western part of Guatemala. There is strong demand for these entities to provide financial services, but they have not been able to fully meet it. Consequently, they are now forming a network to share experiences and coverage potential throughout the western part of the country and reach the region that contributes the most remittances nationally.
- 3.4 Nonetheless, financial intermediation is scarce considering the volume of remittances going to rural areas. Microfinance institutions are more active in urban than in rural areas, where, moreover, there are few financial intermediaries. Salcajá is strategically positioned as a remittance agent with the capacity to design a market strategy and a financial product that meets the needs of remittance senders and recipients.
- 3.5 **Additionality.** This project will allow the MIF/IFAD program ("the program") to become the catalyst for financial deepening and partnerships among nonbank financial intermediaries, so that they can use the increasing flow of remittances for the economic development of the communities they serve. In this particular case, a concrete opportunity has arisen, given that, as part of its corporate strategy, the Salcajá cooperative is developing an online platform for remittance management, through the following actions: (i) opening an ad hoc bank account for direct immigrant-bank-cooperative-relative/recipient transfers. A bank account will be

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<sup>1</sup> IOM (2004), "Survey on the impact of family remittances on Guatemalan homes." Working Notebooks on Migration 19. Guatemala, p. 28.

opened at one or two banks with operations in both countries (Guatemala and the United States); (ii) obtaining a 1-800 account; and, (iii) contracting banking-management services to open the accounts in the United States and a virtual office for marketing to users and advising them on money-transfer transactions to Guatemala and legal and accounting management.

- 3.6 Moreover, executing the project as part of a program in conjunction with another multilateral institution like IFAD will lead to crossfertilization of information, technical assistance, and lessons learned from other projects now in execution by IFAD in the same country and region.
- 3.7 **Similar or related operations.** Project MIF/AT-619 was approved in November 2004, allocating US\$500,000 for Catholic Relief Services to support the merger of several microcredit programs into a single institution, Fondo para el Desarrollo Solidario [Solidarity Development Fund] (FONDESOL), which will be principally engaged in rural microlending. Given that the proposed project's target area is also rural, it complements that project.

#### IV. PROJECT OBJECTIVES AND DESCRIPTION

##### A. Objectives

- 4.1 The project's *general* objective is to help deepen the Guatemalan financial system by extending its reach and coverage in rural low-income sectors through efficient remittance management. The *specific* objective is to develop suitable financial products to channel an increasing flow of remittances to production-oriented projects.
- 4.2 The cooperative's expected outcomes after three years are as follows: (i) a 30% increase in the number of transfers, from the 1,100 currently handled each year to 1,500; (ii) a 30% increase in the number of members/customers, from 4,600 to 6,000; (iii) design and implementation of at least two new remittance-linked financial products; (iv) successful positioning of the cooperative to support migrants, their families, and communities; and (v) an online remittance service.

##### B. Components and activities

- 4.3 **Market knowledge (MIF US\$33,630; Counterpart US\$33,760).** The objective of this component is to identify the wants and needs of emigrants and their families. To do so, the cooperative will retain a consultant to help it assess the market. This consulting assignment is expected to last six months and to yield socioeconomic data on families with emigrant relatives in the United States. It will also highlight how remittance income is used within a representative sample of the cooperative's members and nonmembers who receive remittances through it.

- 4.4 **Rural financial services (MIF US\$165,000; Counterpart US\$6,250).** This component seeks to: (i) design the financial products and strategy for marketing them over the technological platform that the cooperative has been developing; (ii) design a strategy to increase the number of users in the cooperative; (iii) design remittance-linked financial products and services; (iv) update the database information on the wants and needs of emigrants who send remittances and of their families or remittance recipients in the region.
- 4.5 To achieve this, the cooperative will need to retain consultants to: (i) design and develop new remittance-linked financial products, determining their financial, operational, and control features and the mechanisms for delivering them; and, (ii) design marketing strategies for the financial products developed and evaluate their impact. The technical design and qualitative study of financial products is expected to take six months. It consists in designing and conducting a technical study of financial products meeting the needs of the distinct segments of the target population. Products will be designed according to the needs identified through the financed diagnostic assessment, and their market relevance and marketability evaluated. Positioning and marketing strategies will be based on the criteria set in the identification of opportunity niches. Software tools will be used to evaluate the accounting and finance system, with a view to making the adjustments necessary to introduce the new financial products. Web services will be strengthened, and online services introduced. The products based on the market studies and validated in the respective target population segments will be positioned both inside and outside the cooperative. This process will take place with a marketing push that will include *induction-training* of the cooperative's entire staff and personnel hired to promote the products. Internally, software and web management will be updated.
- 4.6 Financial-product marketing and impact evaluation are expected to take 12 months. A six-month campaign to promote social acceptance of the products will be carried out, followed by another six-month campaign to reinforce that acceptance. This includes an image campaign and a direct-interaction campaign with the relatives of immigrants in the United States. This campaign will contain a mechanism to ensure that information is channeled to the immigrants and residents in the United States through their relatives. In the medium term, it will also serve to systematically locate emigrants in the United States, so as to encourage financial advisory services and foster the productive use of remittances, the use of services provided by the cooperative, and binational grassroots organization for development. The data from the market studies will be used to evaluate the portfolio, acceptance of the products, and their impact on the communities.
- 4.7 **Promotion and dissemination (MIF/IFAD US\$11,000).** This component will consist of a consulting assignment to identify the lessons learned from the outcomes of financial intermediation targeting women, particularly in regard to savings, children, and education.

4.8 The project also includes resources for administration, evaluation and audits.

## V. COST AND FINANCING

5.1 The total project cost is US\$352,140. Of that amount, the MIF will finance US\$198,000, and the IFAD US\$62,130, according to the following breakdown:

| Item   | MIF              | IFAD            | Salcajá         | Total            |
|--|------------------|-----------------|-----------------|------------------|
| <b>Market knowledge</b>                              |                  |                 |                 |                  |
| • Market studies                                     |                  |                 |                 |                  |
| ○ Cooperative members                                |                  |                 | 33,760          | 33,760           |
| ○ Remittance recipients                              |                  | 33,630          |                 | 33,630           |
| <b>Total</b>   | <b>33,630</b>    |                 | <b>33,760</b>   | <b>67,390</b>    |
| <b>Rural financial services</b>                      |                  |                 |                 |                  |
| • Design of financial products                       |                  |                 |                 |                  |
| ○ Institutional image study                          |                  | 9,000           |                 | 9,000            |
| ○ Design and study of financial products             | 8,000            |                 |                 | 8,000            |
| ○ Design of positioning strategies                   | 16,000           |                 |                 | 16,000           |
| ○ Evaluation of accounting system                    | 4,000            |                 |                 | 4,000            |
| ○ Promotion  | 8,000            |                 |                 | 8,000            |
| • Web services                                       |                  |                 |                 |                  |
| ○ Evaluation and updating of website                 | 6,000            |                 |                 | 6,000            |
| ○ Evaluation of online services                      | 6,000            |                 |                 | 6,000            |
| ○ Addition of online services                        | 9,000            |                 |                 | 9,000            |
| ○ Operation of website and online service            | 9,000            |                 |                 | 9,000            |
| • Product marketing                                  | -                |                 |                 | -                |
| ○ Product marketing                                  | 70,000           | 20,000          |                 | 90,000           |
| • Training   |                  |                 |                 |                  |
| ○ Financial product training                         |                  |                 | 6,250           | 6,250            |
| <b>Total</b>   | <b>165,000</b>   |                 | <b>6,250</b>    | <b>171,250</b>   |
| <b>Promotion and dissemination</b>                   |                  |                 |                 |                  |
| ○ Consulting assignment on lessons learned           | 11,000           |                 |                 | 11,000           |
| <b>Project management</b>                            |                  |                 |                 |                  |
| ○ Project coordinator (1)                            | 36,000           |                 |                 | 36,000           |
| ○ Financial product promoters (4)                    |                  |                 | 6,000           | 6,000            |
| ○ Remittance receivers/payers (2)                    |                  |                 | 3,000           | 3,000            |
| ○ Online supervisor                                  |                  |                 | 1,500           | 1,500            |
| ○ Website manager                                    |                  |                 | 1,500           | 1,500            |
| • Computer equipment                                 |                  |                 |                 |                  |
| ○ Computer hardware                                  | 6,000            |                 |                 | 6,000            |
| ○ Software fine-tuning                               |                  |                 | 7,500           | 7,500            |
| ○ Software for online services                       |                  |                 | 20,000          | 20,000           |
| • Operating and administrative costs                 | -                |                 | 12,000          | 12,000           |
| <b>Total</b>   | <b>42,000</b>    |                 | <b>51,500</b>   | <b>93,500</b>    |
| <b>Evaluation (US\$4,000) and audits (US\$5,000)</b> | <b>9,000</b>     |                 |                 | <b>9,000</b>     |
| <b>TOTAL</b>   | <b>\$198,000</b> | <b>\$62,630</b> | <b>\$91,510</b> | <b>\$352,140</b> |

- 5.2 The US\$4,000 for evaluation will be administered by the program for project evaluation activities in accordance with paragraph 5.2 of document MIF/GN-91. This amount will be deducted from the total contribution as of the effective date of the technical-cooperation letter of agreement, and the executing agency will not be required to submit a disbursement request.
- 5.3 Up to 50% of the counterpart resources will be accepted in kind. The Salcajá cooperative will be responsible for the counterpart resources.

## **VI. EXECUTING AGENCY AND EXECUTION MECHANISM**

### **A. Executing agency**

- 6.1 The Salcajá rural cooperative (Cooperativa de Ahorro y Crédito Salcajá R.L.) was founded in 1965 and began its local payment of family remittance operations in 2001 under the FENACOAC-VIGO agreement. Salcajá currently has 18,991 members (8,412 women and 10,579 men), a loan portfolio worth 97 million quetzals (approximately US\$12.8 million), and 4,672 users.
- 6.2 Since its foundation, Salcajá has belonged to National Federation of Savings and Loan Cooperatives (FENACOAC), which currently comprises 26 cooperatives and has 104 points of service throughout the country. FENACOAC effects fund transfer transactions throughout the network of member cooperatives; this network has potential for the nationwide intermediation of remittances.
- 6.3 The Salcajá cooperative currently has its central office in the city of Salcajá and three branch offices at Zona 3 and La Rotonda in the city of Quetzaltenango and in the village of San Cristóbal, Totonicapán.

### **B. Execution mechanism**

- 6.4 A project executing unit will be set up within the Salcajá cooperative. It will have a coordinator, four financial-product promoters, two remittance receivers/payers, and one online supervisor in charge of the website. These will be selected from a short list of candidates. The coordinator will be responsible for project execution, contracting the required consulting assignments, and ensuring their proper execution. In general, the project executing unit will: (i) prepare and execute annual work plans (AWPs); (ii) coordinate and manage (plan, organize, execute, supervise, and review) project activities; (iii) conduct contracting processes in accordance with Bank rules, and supervise procurement of goods and services; (iv) supervise the timely and effective execution of project components; (v) process disbursement requests to the MIF/IFAD program coordinator; (vi) prepare and submit account statements and management reports to the executing agency and the MIF/IFAD program; (vii) monitor the performance indicators established in the logical framework; (viii) conduct selection and procurement procedures for goods and

- services, consultants, or firms; (ix) supervise and review the work of consultants; (x) monitor budget management and execution using established procedures; (xi) prepare account statements for resources used; (xii) prepare administrative and technical reports for the Bank; (xiii) ensure that all project management and execution mechanisms are in place, that rules are properly prepared, and that appropriate methods are used; (xiv) deliver semiannual progress reports on the project; and, (xv) disseminate project outcomes.
- 6.5 **Procurement.** Goods and services will be procured by Salcajá in accordance with applicable Bank rules. An updated version of the attached procurement plan will be a condition precedent to the first disbursement. Further updates are to be submitted with each six-monthly progress report.
- 6.6 **Accounting and audits.** Project accounting and audits will be done in accordance with the MIF/IFAD program Operating Regulations, which are attached to this proposal as an annex. The applicable paragraphs are 4.27 and 4.28.
- 6.7 **Execution period and disbursements.** The estimated execution period for the project is 36 months, with disbursements over 42 months. Disbursements will be made through advances or replenishments of the revolving fund up to 20% of the net contribution, given that the project involves numerous simultaneous activities requiring large payments. No replenishment of the revolving fund will be permitted until the executing agency has duly justified the use of funds received, showing not only that they have been used properly, but that the counterpart contribution has been paid and the proposed targets met.

## VII. MONITORING AND EVALUATION

- 7.1 **Performance monitoring reports.** Salcajá will prepare and submit project progress reports to the MIF/IFAD program within 30 days after the close of each six-month period, and a final report within 30 days after the last disbursement. Semiannual reports that coincide with the close of the fiscal year will include the annual work plan (AWP) for the following year. Information on monitoring reports, formats, type of information required, and frequency are all addressed in the program Operating Regulations, specifically paragraph 4.22.
- 7.2 **Evaluation.** The program will commission an overall evaluation of all program projects using the funds specified in paragraph 5.2. The MIF/IFAD program provides for the hiring of a coordinator, one of whose responsibilities will be ongoing monitoring of the activities and execution of individual projects. This coordinator may be an external consultant working under the technical direction of the MIF Operations Unit (MIF/OPS). Individual project evaluation activities are addressed in the program Operating Regulations, specifically paragraph 4.22.

## VIII. JUSTIFICATION

- 8.1 The Salcajá cooperative's strategy to strengthen its remittance service offers the following advantages: (i) immediate delivery of money anywhere in the country; (ii) personalized service to remitters and recipients through its online system and personal customer service; (iii) competitive commissions; (iv) personal contact with remitters and recipients; (v) direct service, reducing the role of intermediaries.
- 8.2 With its model for transfers and cross-selling of financial services, Salcajá will be able to serve both emigrants abroad and recipients in the departments of Quetzaltenango and Totonicapán, tailoring products to their needs, such as health and life insurance, child accounts, structured savings, and other remittance-based services.
- 8.3 **Beneficiaries.** This project has two main groups of beneficiaries. One is immigrants in the United States, principally residents of Trenton, Chicago, Houston, Washington, and Los Angeles originally from Quetzaltenango and Totonicapán. An estimated 40,381 such immigrants work in those cities. A second group is their relatives in Quetzaltenango and Totonicapán. Some 46,000 in this group, 56% of them women, could benefit directly or indirectly. The new products will be marketed to some 6,000 people, at least 3,000 of whom will be women.
- 8.4 **Environmental and social impact.** The Committee on Environment and Social Impact (CESI) reviewed the project on 29 April 2005, and determined that the project team's strategy to address environmental issues was appropriate.
- 8.5 The project itself has no adverse environmental impacts. However, it does represent an important vehicle for raising awareness in the target population about environmental issues and conservation. Hence, as a condition precedent to disbursement of the project funds, Salcajá must show that it has altered its credit regulations to reflect the prohibition against financing of activities considered harmful to the environment. It must also show that the project-funded studies include a module on the conditions under which production-oriented projects in the target communities are to be executed, so that new financial products can be adjusted to act as catalysts for environmental improvement.

## IX. SPECIAL CONTRACTUAL CONDITIONS

- 9.1 As conditions precedent to the first disbursement, the following must be submitted to the Bank's satisfaction: (i) the terms of reference for the following consulting assignments: (a) market studies, (b) technical and qualitative design of new products and financial services, and (c) evidence that the project coordinator and other members of the project executing unit have been hired; (ii) the training plan for loan officers; (iii) the first annual work plan, which will include a project



execution timetable with dates for partial fulfillment of the agreed goals and an update of the initial procurement plan; and (iv) approved and ratified program Operating Regulations covering this operation, specifically addressing procurement processes, accounting, audits, and monitoring.

## LOGICAL FRAMEWORK MATRIX SALCAJÁ

| Objectives  | Verifiable Indicators   | Means of verification  | Assumptions  |
|---|---|--|--|
| <b>Goal</b>   |   |  |  |
| To help deepen the Guatemalan financial system by extending its reach and coverage in rural low-income sectors through efficient remittance management. | 2 or 3 years after project completion:<br><br>More unbanked migrants and their families have been brought into the formal banking system.   | Reports from the Central Bank of Guatemala, Ministry of Finance  | Migrants who send remittances to their families remain able to do so.                            |
| <b>Purpose</b>  |   |  |  |
| To develop suitable financial products to channel an increasing flow of remittances to production-oriented projects.                                    | By project end:<br><br>1,200 persons have access, for the first time, to new financial products and services.<br><br>A 30% increase in 3 years in the number of transfers through Salcajá.<br><br>A 30% increase in 3 years in the number of members, from 4,600 a 6,000. | Final evaluation of the MIF/IFAD program<br><br>Project completion report (PCR)<br><br>Final report of Salcajá | The cooperatives remain committed to jointly promoting remittances and financial intermediation. |

| Objectives                      | Verifiable Indicators  | Means of verification   | Assumptions  |
|---------------------------------|--|---|--|
| <b>Components</b>               |  |   |  |
| <b>Market knowledge</b>         | <p>Two market studies are ready by the end of year 1.</p> <p>By project end, the cooperative has positioned itself as a cooperative that supports emigrants, their families, and communities in 4 United States cities.</p> <p>By month 18, Salcajá has an effective technology platform for remittance management.</p>  | <p>Midterm review</p> <p>Semiannual status reports from the cooperative</p> <p>Project Performance Monitoring Report (PPMR)</p> <p>Cooperative reports on market breakdown</p> <p>Financial statements of the cooperative</p> | Demand for financial services by remitters and recipients. |
| <b>Rural financial services</b> | <p>By month 2, Salcajá has credit regulations that meet the country's general environmental requirements and prohibit financing of activities on the MIF's list of ineligible activities.</p> <p>By month 18, Salcajá has at least two new remittance-based financial products on the market.</p> <p>By project end, the cooperative has an online remittance service.</p> <p>By project end, 3,000 women have had access to new remittance-based financial products.</p> <p>By month 30, Salcajá is handling a monthly volume of 1,500 remittances.</p> |   |  |

| Objectives   | Verifiable Indicators   | Means of verification                          | Assumptions  |
|--|---|--|--|
| <b>Promotion and dissemination</b>   | By project end, 25,000 women in rural areas have received information on sending remittances. |  |  |
| <b>Activities</b>  |   |  |  |
| Market assessment yielding socioeconomic data on families with emigrant relatives in the United States.                        | Market assessment submitted after six months.   | Semiannual status reports from the cooperative | Experts are available to prepare innovative, quality market studies.   |
| Marketing strategy.  | Marketing strategy defined after 12 months.   | Financial statements of the cooperative        | The cooperative allocates additional resources to design financial products.                                   |
| Design of financial products.  | Financial products designed in month 6.   |  | Firms with experience are available to design the strategy to increase the number of users of the cooperative. |
| Strategy to increase the number people using the cooperative to send their remittances through relatives in their communities. | Expansion strategy defined in month 12.   |  |  |
| Database update.   | Database updated in month 12.   |  |  |
| Study of lessons learned.  | Study submitted in month 20.  |  |  |

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTIRATERAL INVESTMENT FUND

PROPOSED RESOLUTION MIF/DE-\_\_\_\_\_

Guatemala. Nonreimbursable Technical Cooperation ATN/\_\_\_\_\_-GU  
for the Program “More than Remittances”

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank or such representative as he shall designate is authorized, in the name and on behalf of the Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Cooperativa de Ahorro y Crédito Salcajá, R. L., and to take such additional measures as may be pertinent for the execution of the project proposal contained in document MIF/AT-\_\_\_\_\_ with respect to a technical cooperation for remittances in Guatemala.

2. That up to the amount of US\$198,000, or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to the resources of the Line of Activity for MIF-IFAD Partnership Facility for Rural Private Sector Development of the Small Enterprise Development Facility of the Multilateral Investment Fund.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.

(Adopted on \_\_\_\_\_)