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MULTILATERAL INVESTMENT FUND

DOMINICAN REPUBLIC

**DEVELOPMENT OF FINANCIAL AND BUSINESS SERVICES FOR
REMITTANCE RECIPIENTS**

(TC-03-04-04-2-DR)

DONORS MEMORANDUM

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CONTENTS

EXECUTIVE SUMMARY

I.	COUNTRY AND PROJECT ELIGIBILITY	1
II.	BACKGROUND.....	1
	A. The impact of remittances	1
	B. The financial system and cooperative sector	2
	C. The Association of Rural Savings and Loan Institutions (AIRAC)	3
	D. Lessons learned in other projects and the MIF's rationale.....	5
III.	PROGRAM OBJECTIVES AND BASIC COMPONENTS	5
	A. Objectives	5
	B. Components and activities.....	5
	1. Component I – Reduction of the cost of transferring remittances	6
	2. Component II. Promotion of business activities	7
	3. Component III. Awareness-building and dissemination	8
IV.	COST AND FINANCING OF THE PROGRAM	9
V.	EXECUTING AGENCY AND EXECUTION MECHANISM	10
VI.	MONITORING AND EVALUATION.....	12
VII.	JUSTIFICATION, BENEFITS AND RISKS.....	12
	A. Justification.....	12
	B. Risks	13
VIII.	ENVIRONMENTAL AND SOCIAL VIABILITY	13
IX.	EXCEPTIONS TO BANK POLICY	13
X.	SPECIAL CONTRACTUAL CONDITIONS	14

ANNEXES

Annex I Logical framework

ABBREVIATIONS

AIRAC	Asociación de Instituciones Rurales de Ahorro y Crédito [Association of Rural Savings and Loan Institutions]
CAC	Cooperativas de Ahorro y Crédito [Savings and Loan Cooperatives]
CESI	Committee on Environment and Social Impact
COSEFI	Corporación de Servicios Financieros [Financial Services Corporation]
GDP	Gross domestic product
IMF	International Monetary Fund
MIF	Multilateral Investment Fund
PCR	Project completion report

Insert Executive Summary here

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EXECUTIVE SUMMARY

Executing agency:	Asociación de Instituciones Rurales de Ahorro y Crédito [Association of Rural Savings and Loan Institutions] (AIRAC)
Beneficiaries:	Families receiving remittances who use the established transfer mechanism and who consistently use the saving services offered by the savings and loan cooperatives. Also, the initiation, expansion, or consolidation of business activities will benefit microenterprises and small businesses and an entire system of interconnected actors, including the receiving family, the sending family, the savings and loan cooperatives, and potential investors.
Objectives:	The overall goal of the proposed operation is to boost the income of the low-income population in areas affected by migration. The specific objective is to facilitate this population's access to financial and business services when it needs support for productive activities.
Description:	<p>The project will fund three components: (a) improving remittance transfer services and efficiently integrating them into a diversified range of financial services, which should specifically foster the mobilization of savings among remittance recipients as members of savings and loan cooperatives; (b) helping the families receiving remittances with business education and development in rural areas; and (c) promoting and disseminating a model for the productive use of remittances among Dominicans residing abroad and the recipient families in the Dominican Republic.</p> <p>This project, like the other projects in the MIF remittance cluster, will not only lower transaction costs, but will also allow remittances to have a multiplier effect on local economies by turning system users into formal banking customers, and will thus contribute more effectively to the development of the productive sector.</p>

Amount and source:	MIF (Window III-A) Nonreimbursable:	US\$ 840,000
	Local contribution:	US\$ 400,000
	Total:	US\$1,240,000
Execution timetable:	Execution period:	36 months
	Disbursement period:	42 months
Exceptions to Bank policy:	None.	
Special contractual clauses:	The first disbursement of funds will be contingent upon AIRAC's presenting evidence that the Coordinating Unit has been created (paragraph 10.1).	
Environmental and social review:	The project was reviewed and approved by the Committee on Environment and Social Impact (CESI) on 8 August 2003.	

I. COUNTRY AND PROJECT ELIGIBILITY

- 1.1 The Donors Committee declared the Dominican Republic eligible for all MIF financing modalities on 12 September 1994. The project is consistent with the overall goals of the MIF and meets the eligibility criteria for financing through Facility III-A (Small Enterprise Development), given that it is in line with the MIF's strategic objectives, particularly the policy of promoting better access to financial and nonfinancial services for the lower-income population, especially for micro and small enterprises. Moreover, the MIF has identified the strengthening of remittance services as an area to be given special attention, which includes broadening the knowledge about the topic of remittances and allowing for the adaptation of support instruments (MIF/GN-73).

II. BACKGROUND

A. The impact of remittances

- 2.1 In the Dominican Republic, the emigration phenomenon became more acute in the 1980s as a result of economic and socio-political stagnation in the region.¹ Along with the increasing outflow of migrants, who have primarily relocated to the United States in recent decades, the Dominican Republic has seen an ever increasing inflow of remittances. Since the late 1990s, these remittances have become one of the most significant sources of foreign exchange for the country's economy, and have served as an anchor for macroeconomic stability. The value of remittances grew at the constant and steady rate of 14% annually from 1995 to 2001, reaching US\$1.91 billion in 2002,² a figure equivalent to 8.8% of the GDP, 43.6% of the value of services exports, 292% of the value of merchandise exports, and 159% of the value of foreign direct investment. Indeed, remittances have been key in covering the deficit in the balance of payments. It is estimated that the flow of remittances will continue to grow at an annual rate of 4% or 5% over the next five years.
- 2.2 **Problems related to remittances. (1) *Transaction costs.*** It is estimated that the average cost of sending a remittance to the Dominican Republic amounts to approximately 9% of the amount sent. In order to make remittances, migrants rely on different institutional options, each of which varies in terms of efficiency, security, and costs for both the sender and the recipient. In most cases, however, remittances from abroad are sent through money transfer firms such as Western Union or Quisqueyana. These agencies tend to have branches located in areas

¹ It is estimated that approximately 1.5 million Dominicans, a number representing 17.7% of the country's population, have emigrated to the United States and reside there, living primarily in cities on the East Coast.

² Calculated at the exchange rate effective at the end of 2002.

where there are large groups of immigrants. The sending agency also has contracts with agencies who deliver the remittances in the receiving country. These networks of offices often do not cover the interior of the country and rely on courier services. In any event, the distributing agents deliver remittances to the beneficiary in an unsafe and costly manner owing to a lack of technological innovations and/or efficient distribution channels.

- 2.3 **Problems related to remittances. (2) *Excessive use for consumption and little mobilization of savings.*** An analysis of the use of remittances underscores their importance to the income of the recipients: nearly 95% of receiving households report using remittances to cover spending on consumption, education, health care, and housing. The rate of savings for remittances is 2%, and only 1.5% is channeled into productive investments. The relatively low rate of savings and investment of remittances reflects the precarious financial situation of the majority of recipients as well as the lack of effective access of these economic segments to the financial system and the failure to integrate remittance services into a broader range of financial services for the sector.

B. The financial system and cooperative sector

- 2.4 Just as in other countries with a similar level of per capita income, the financial system in the Dominican Republic is dominated by commercial banks. The financial system's total assets at the end of 2002 equaled some US\$10.675 billion, with a gross portfolio total of US\$6.47 billion, in which commercial banks held 76.6% of assets. The new Monetary and Financial Law passed in November 2002 creates favorable conditions for a deepening of the financial system by correcting distortions that have long persisted in the Dominican financial market. However, the penetration of private banking into the interior of the country will continue to be very limited due to high transaction costs, concentrated sector risks, and underdeveloped financial oversight.
- 2.5 Owing to limited international reserves, the Dominican economy remains highly vulnerable to external forces in 2003, and this vulnerability is exacerbated by the shaky state of the banking sector. In the last quarter of 2002, some important commercial banks lost around 80% of their local currency deposits; given the weight of these institutions in the financial system, the monetary authority decided to provide them with liquidity assistance of more than US\$2 billion. Inevitably, this uncertain monetary context and a growing mistrust on the part of economic agents affected the banks' liquidity position as well as their asset and liability structure. At the end of August 2003, the authority signed a stand-by arrangement with the International Monetary Fund (IMF) that is expected to restore stability to the financial system.
- 2.6 **The cooperative movement.** In the Dominican Republic, financial institutions in the form of savings and loan cooperatives (CACs) generally maintain close ties

with the segments of the population that established them, and their ownership structure provides an important traditional source of financial services for lower income groups. This is particularly true in rural areas, where traditional banking has not yet made significant inroads. The three commercial banks that set up shop in areas such as San Jose and Monción, for example, were all forced to close down their branches because they were unprofitable, while cooperatives proved to be leaders in providing services in those same areas. This is because cooperatives were able to provide products that were adapted to rural communities and based on solidary trust as well as personalized services. Hence, strengthening cooperative financial service providers would encourage a continued deepening of the country's financial markets. At the end of 2002, the CACs had total assets worth US\$155 million and a total portfolio equal to US\$126 million. Despite their limited participation in financial markets, CACs have grown faster than any other group of institutions in the system.³

- 2.7 The CACs are strengthening their ties to groups of Dominicans residing in the United States in an attempt to improve remittance delivery services and mobilize savings among recipient families by advising their customers on the use of remittances for productive activities. It bears mentioning that in areas affected by emigration, new entrepreneurial initiatives are emerging within families that receive remittances. Remittance recipients, as well as emigrants who return to the Dominican Republic, have started up small businesses in areas such as handicrafts, furniture-making and livestock-raising. However, the lack of business know-how and experience in terms of identifying new businesses, developing business plans, and compiling adequate information on target markets has led to numerous failures. As a result, remittances are not linked to existing and potential investment opportunities.

C. The Association of Rural Savings and Loan Institutions (AIRAC)

- 2.8 In view of the institutional weaknesses that exist in rural areas in terms of support for microenterprises and small businesses, the MIF funded a project in 1996 to build the capacity of CACs, joined at the national level through the Association of Rural Savings and Loan Institutions (AIRAC). At the same time, the MIF granted support to the Superintendency of Banks for the purpose of improving the regulation and oversight of the country's system of cooperatives.⁴ The project ended in 1999, and the project completion report (PCR) concludes that implementation was satisfactory and will most likely achieve the development objective. Currently, AIRAC is comprised of 13 savings and loan cooperatives,

³ For the past three years, the asset growth rate has been 27.8% for CACs, while the average rate for the financial system as a whole has been 12.3%. This is a reflection of the process of institutional consolidation toward commercial banks.

⁴ "Program to strengthen small business and microenterprise in rural areas" (ATN/MT-5075-DR, ATN-MT-5076-DR).

which in turn have more than 90,000 members whose consolidated assets amount to about 80% of the assets and portfolio of all national cooperatives.⁵ The technical cooperation provided to AIRAC by the MIF has improved internal control management and the portfolio rating such that AIRAC, as a second-tier cooperative, has been able to duly carry out its oversight task. Additionally, the majority of AIRAC cooperatives have benefited from MIF resources, which has enabled them to modernize their computer and communication systems, thus improving financial indicators.

- 2.9 It should be noted that during the first half of 2003, most CACs were only slightly affected by the country's financial crisis and the authorities were able to avoid a systemic crisis. While overall credit risk rose as a result of the economic situation, all the CACs were able to maintain positive financial indicators in terms of portfolio quality, capital adequacy, and profitability. This is because the CACs that serve a target population different from that served by the formal banking system have been prudent in managing currency and liquidity mismatches and have even been able to attract a significant part of the deposits of intervened banks.
- 2.10 In recent years, the subject of remittances has attracted a great deal of attention from AIRAC and its member cooperatives. A municipality that has an AIRAC member cooperative, for example, receives more than 600 remittances a month, amounting to a monthly total of US\$460,000. Overall, the estimated annual value of remittances received by members of CACs belonging to AIRAC amounts to US\$250 million (a very approximate figure). In the year 2000, some savings and loan cooperatives belonging to AIRAC initiated a new plan for channeling the flow of family remittances for the purpose of encouraging remittance recipients to save and to invest a portion of remittances in business activities. The plan involves establishing partnerships with United States financial institutions and with Dominicans residing in the United States, particularly in New York, Newark, Providence, Boston and Philadelphia. Dominicans residing abroad have recently begun to form groups and associations, based on their communities of origin, and are continually exploring ways to improve the cheaper methods of sending remittances as well as the productive use of remittances as business investments.
- 2.11 At the same time, cooperatives are playing a key role in terms of bringing together the Dominican community living abroad. Unlike Central American emigrant communities, more than 50% of Dominicans who reside abroad belong to savings and loan cooperatives from their native regions. Services offered to members both inside and outside the country essentially include savings accounts and home loans. It bears mentioning that cooperatives show a default rate for members residing outside the country of 0% as compared to a national default rate of 3%. These close ties to their members abroad are maintained through trips made by representatives of the cooperatives to the communities located in different areas abroad.

⁵ The remaining cooperatives are not part of a second-tier federation or cooperative such as AIRAC.

D. Lessons learned in other projects and the MIF's rationale.

- 2.12 Some issues that limit the progress of this type of program have been identified in practice, as reflected in similar projects implemented in Mexico and El Salvador.⁶ Although the projects are still being executed, the lessons learned have been incorporated into this project: in order to increase the amount of savings derived from the inflow of remittances, an appropriate marketing campaign would have to be conducted aimed at both the sender and the recipient family, which needs incentives to not spend the entire amount of the remittances; the creation of a fund for promoting business education and development could motivate recipients to allocate part of their remittances to secure accessible loans, thereby reducing their level of reliance on those remittances.
- 2.13 Similarly, it has been shown that having information and communications technology is key to providing for a growing number of transactions that require monitoring, security, and speed of service for transfers. If the service is not efficient, the objectives of promoting savings, creating jobs, and generating income would be limited.
- 2.14 **Similar MIF and Bank projects in the country.** It is worth noting that in the Dominican Republic, the MIF granted a loan to Grupo BHD, a relatively large commercial bank, to improve the distribution of remittances (MIF/AT-531). The loan complements the proposed operation, given that the partner that the borrower is seeking does not belong to AIRAC, and this operation will reach those interior areas of the country in which the borrower has no plans to invest. Also, the additional competition is expected to help reduce the cost of transfers.

III. PROGRAM OBJECTIVES AND BASIC COMPONENTS

A. Objectives

- 3.1 The overall goal of the proposed operation is to boost the income of the low-income population in areas affected by migration. The specific objective is to facilitate this population's access to financial and business services when it needs support for productive activities.

B. Components and activities

- 3.2 The project will fund three components: (a) improving remittance transfer services and efficiently integrating them into a diversified range of financial services, which

⁶ Strengthening institutions in the low-income savings and loan sector (ATN/MT-7792-ME), Capitalization of remittances for local economic development (ATN/ME-7717-ME), Investment of remittances for rural development in Migrant Economies (ATN/ME-7834-ME) and Strengthening of financial and family-remittance services (ATN/ME-7886-ES).

should specifically foster the mobilization of savings among remittance recipients as members of savings and loan cooperatives; (b) helping the families receiving remittances with business education and development in rural areas; and (c) promoting and disseminating a model for the productive use of remittances among Dominicans residing abroad and the recipient families living in high-migration areas.

- 3.3 One of the factors preventing a mobilization of income is that the transaction costs associated with the mobilization of small savings are high and there is concern regarding the volatility of low-income individuals' deposits. Mobilizing savings through remittances might be the most effective measure, but this necessitates a reduction in the cost of distributing remittances. Further, access to formal loans has frequently been identified as limited in the areas affected by migration, owing to production and price risk as well as imperfect information. This is a major limiting factor for agricultural and industrial diversification and for productivity growth. These problems need to be mitigated and incentives created for intermediaries to serve the target productive sector.

1. Component I – Reduction of the cost of transferring remittances (MIF: US\$272,400; local: US\$137,600)

- 3.4 This component aims to modernize the communications information system in order to achieve efficiency in the transfer of funds and the strength required for a significant volume of transactions. The financial cooperatives' online data transmission mechanism will be enhanced to provide intersystem services online and update the central database, to build an institutional network with numerous points of service nationwide. The MIF resources will be invested in the area of technology solutions for electronic communications in the distribution of remittances in the Dominican Republic, making use of part of the technology platform that is in the process of being installed at the cooperatives. The investment will entail making hardware available and developing software for the purpose of having a centralized, automated reference base for the distribution of remittances that is compatible with all types of systems once AIRAC and its members decide on a business relationship to attract remittances from abroad. As mentioned above, AIRAC has a monitoring system to rate cooperatives at various risk levels, covering optimal fulfillment of 35 indicators. AIRAC will use the rating system to assess whether the cooperatives are eligible to participate in this operation.
- 3.5 The directors of various cooperatives belonging to AIRAC have been traveling to the United States, establishing ties with Dominicans residing abroad, and are seeking a partnership with credit unions in the United States in order to make the transfer of remittances speedy, less costly, and safer. The partnership will be with a more qualified institution in terms of cost, quality and efficiency of these services. At present, owing to AIRAC's relationship with the WOCCU (World Council of

Credit Unions), its services are considered more suitable. But AIRAC would be open to exploring other potential strategic alliances in this respect.

- 3.6 The activities under this component include hiring consultants to develop services in line with the needs of AIRAC and its members, such as preparing to meet the demands for greater legal monitoring and reporting requirements, protecting these financial intermediaries against the potential risk of illegal operations, and establishing homogeneous technological mechanisms that make it possible to provide transparent and timely information to the public and to the regulatory and supervisory authorities.
- 3.7 The following table summarizes the estimated effect of the technology investment, measured in different terms:

	Before Project	After Project
Number of points of service	6	60
Number of monthly transactions per office	144	216
Cost per transaction	Not available	<US\$1.50
Minimum delivery time	30 minutes	20 seconds
Maximum delivery time	2 days	2 hours
Final cost to beneficiary per remittance	12–15%	<8%
Membership of remittance customers in cooperatives	<15%	>50%
Number of remittance customers	<1,500	>10,000
Volume of transfers in US dollars per day	US\$6,300	US\$135,000

2. Component II. Promotion of business activities (MIF: US\$360,000; local: US\$58,500)

- 3.8 This component is divided into two subcomponents: (a) a strategic analysis; and (b) a seed capital fund.
- 3.9 **(a) Strategic analysis of business development.** This subcomponent will provide support to the project executing agency in coordinating the strategic planning that will make it possible to take better advantage of the potential of high-migration areas and channel that potential toward an income growth strategy. This will allow the executing agency to identify and select better projects in the most dynamic and best suited areas, and possibly attract Dominican investors living abroad, by reinforcing the availability of information and targeting it directly toward areas of opportunity. Specifically, consultants will be hired to: (i) perform a prospective study to identify geographic and sector-level comparative advantages for investment; and (ii) develop a strategy to promote the coordination of instruments of technical assistance and training in business administration with a view to improving specific aspects such as marketing channels, organization, negotiation, and innovation.

- 3.10 **(b) Seed capital fund.** The resources for this subcomponent will be used to provide support to existing small businesses or those started up by the families receiving remittances from Dominican emigrants residing in the United States, particularly those who deposit them into savings accounts kept with cooperatives belonging to AIRAC. This support will basically consist of business consulting for starting up new businesses and/or for reengineering existing ones. Resources will fund the development of business plans for new businesses and technical assistance for existing small businesses in the areas of production, marketing, and financial administration. It is estimated that an average sum of US\$8,000 in financing will be granted to 30 new businesses and 20 existing small businesses to improve their operating efficiency.
- 3.11 The aim is that, based on these business plans, remittance recipients will make an effort of their own which, together with the additional effort of the sender, will enable them to have access to financing from the savings and loan cooperatives belonging to AIRAC or from other financial intermediaries for expanding or consolidating microenterprise and small business initiatives.⁷ MIF resources, however, may be used only for business consulting and not to invest in goods or to serve as collateral for the loans required for the investments.
- 3.12 Some examples of projects that could potentially be funded under this component are: (i) the production of grape wine, which uses limited small-scale technology and needs marketing with regard to product presentation and promotion; (ii) the production of special types of meat favored by certain climates, which could generate profits if the export market and/or the national market's tourist areas were targeted. Breeding methods are not considered technically advanced, so consulting could be aimed toward seeking greater productivity through the combination of factors of production; (iii) the production of mahogany furniture, as mahogany is considered a luxury wood owing to its physical beauty and its great durability, and it could compete with imported products; (iv) a project to stimulate fish production among CAC members, which would require the identification of potential local and foreign markets; and (v) a small-scale tourism project offering small-boat excursions to tourists. This would require consulting and training in the design of tourism offerings, as well as promotion through tourism operators.

3. Component III. Awareness-building and dissemination (MIF: US\$37,000; local: US\$75,000)

- 3.13 This component will fund activities aimed at raising awareness among Dominican migrants abroad, as well as among remittance recipients in the areas affected by migration. More specifically, three sessions will be organized to promote the

⁷ AIRAC intends for the mechanism to involve leveraging the participation of Dominicans in the future, in the sense that for each dollar of time deposits, the receiving family member would have access to several dollars in financing for economic initiatives.

project in areas of the United States with a high concentration of Dominican migrants. Local counterpart funds will be used to rent space and pay for travel and per diem expenses for the project coordinator's team. Funds will also be invested to look for better providers of remittance transfer services (financial institutions), foster institutional ties with Dominican groups residing abroad, and explore different options in terms of the services that AIRAC could offer its clients.

- 3.14 At the same time, this component will cover the costs of designing and producing promotional materials, which will be distributed in the major Dominican communities in the United States as well as in the Dominican Republic. MIF resources will also fund the hiring of consultants to develop web pages to disseminate information related to project activities both abroad and in local areas, as well as case studies of the business projects carried out.
- 3.15 As sessions are held to publicize these initiatives, they will create awareness within local communities, as well as in Dominican clubs in the United States, and eventually, each group of Dominicans will become equipped to identify and evaluate investment and economic development opportunities for themselves. Further, if the model is successful, it would be replicated for neighboring countries in the Central American and Caribbean region.

IV. COST AND FINANCING OF THE PROGRAM

- 4.1 The total cost of the operation is estimated at US\$1,240,000, of which US\$840,000 will come from nonreimbursable MIF funds (Window III-A), and US\$400,000 will be contributed by the local counterpart, of which 75% will be in cash. The better part of the resources will go toward hiring specialized national and international consultants, as well as training and dissemination.
- 4.2 **Execution and disbursement periods.** The proposed project will be executed over a period of 36 months and the resources disbursed over a period of 42 months, both periods beginning on the date of entry into force of the agreement.
- 4.3 **Sustainability.** The sustainability of the project derives from the quality of remittance distribution services attracting growing demand from existing and new members, as well as from the senders; and from new and small business entrepreneurs making a firm commitment with their own resources.

ACTIVITIES (US\$)	MIF	LOCAL	TOTAL	%
Component 1: Reduction in the cost of transferring remittances	272,400	137,600	410,000	33
Component 2: Promotion of business activities.	360,000	58,000	418,000	34
(a) Strategic analysis	0	18,000		
(b) Seed capital fund	360,000	40,000		
Component 3: Awareness-building and dissemination	37,000	75,000	112,000	9
Administration	82,800	99,000	181,800	15
Evaluations	30,000	0	30,000	2
Cluster activities	15,000	0	15,000	1
Auditing	10,000	0	10,000	1
Contingencies	32,800	30,400	63,200	5
Total	840,000	400,000	1,240,000	100

V. EXECUTING AGENCY AND EXECUTION MECHANISM

- 5.1 The project will be executed by the Association of Rural Savings and Loan Institutions (AIRAC). AIRAC, founded in 1991, is a nongovernmental entity created in accordance with Executive Order 520 and governed by its by-laws. As the country's only federation of cooperatives, AIRAC has as its mission to achieve the expansion and consolidation of its member institutions by promoting the cooperative movement, providing technical assistance and training services, and funding stabilization and reserves. At the end of 2002, AIRAC's 13 cooperatives had assets totaling US\$101 million, a figure accounting for almost 80% of the total amount for all the cooperatives in the country. AIRAC is a member of the Latin American Confederation of Savings and Loan Cooperatives (COLAC) and has the support of the World Council of Credit Unions (WOCCU). In December of 2002, AIRAC's assets and net worth reached US\$3.27 million and US\$475,000, respectively. AIRAC executed the previous MIF operation satisfactorily and has extensive experience in implementing projects of this nature.
- 5.2 In 1999, motivated by the need to create economies of scale, the majority of AIRAC's members participated in the founding of the Financial Services Corporation (COSEFI) to diversify and improve the quality of the products and services they offer to their members, and at the same time contribute to making their operations more efficient so as to grow and compete better in the marketplace. This notwithstanding, for the contracting of services required for this project, the most qualified service will be sought to conduct the described activities, and COSEFI would only be a candidate to the extent that the Bank's policies governing contracting and matters of ethics and conflict of interest permit.

- 5.3 **Execution mechanism.** For the purposes of executing this project, AIRAC will establish a coordinating unit composed of a project coordinator who reports to the Executive Director of AIRAC, AIRAC professionals working part-time, and part-time administrative help. The coordinator will be in charge of the technical and administrative oversight of the project and will coordinate with technical professionals from AIRAC so as to ensure that execution is cost-effective. The creation of this unit will be the condition precedent to the first disbursement.
- 5.4 **Revolving fund.** The technical cooperation resources will be disbursed by means of a revolving fund set up with the equivalent of 10% of the total amount of the MIF contribution, as set forth in Bank procedures. Project resources will be deposited and administered by AIRAC through separate bank accounts in the name of the project. AIRAC will be responsible for delivering semiannual reports on the status of the revolving fund within 60 days of the end of each six-month period.
- 5.5 **Accounting.** AIRAC will establish and be responsible for maintaining accounting and financial systems and an internal control structure for project resource management, as well as for keeping a proper file of the records documenting expenditures made with project resources, which will allow the sources and uses of project funds to be identified. The accounting system will be organized so that it provides the necessary documents, facilitates the verification of transactions, and permits the timely preparation of financial reports. AIRAC will also be responsible for opening separate and specific bank accounts for the administration of the MIF contribution and the local counterpart funds. Lastly, AIRAC will process the disbursement requests and their respective justifications of expenses according to Bank practices, and will prepare an audited final financial statement relative to project outlays and submit it to the Bank.
- 5.6 **Financial audits.** Within 90 days after final disbursement for the project, AIRAC will prepare and submit to the Bank the financial statements pertaining to the MIF contribution and the counterpart funds. These financial statements will be audited by independent auditors acceptable to the Bank. The cost of the audits will be covered by the MIF contribution, and the process of selecting and hiring the auditors will be conducted following Bank procedures and in accordance with terms of reference previously approved by the Bank.
- 5.7 **Preparation status.** Significant progress has been made on the project, given that AIRAC, with the Bank's support, has drafted preliminary terms of reference for the principal consultants, which will speed up the pace of execution. Furthermore, the execution plan for the first year, broken down by components, has been established.

VI. MONITORING AND EVALUATION

- 6.1 **Monitoring.** AIRAC will prepare and submit project progress reports to the Bank's Country Office in the Dominican Republic within 60 days after the end of each six-month period, and a final report within 30 days of final disbursement. These reports will follow the format previously agreed on with the Country Office and will cover project activities and finances, as well as the outcomes measured in terms of the performance indicators identified in the project's logical framework. The Country Office will use these reports to monitor progress in project implementation and to prepare a project completion report within the three months following the last disbursement.
- 6.2 **Evaluation.** The Bank will contract individual consultants to conduct two project evaluations. A midterm evaluation will be performed once 50% of the resources have been disbursed; a final evaluation will be made during the three months after execution has concluded. Based on the midterm evaluation, the Country Office, in conjunction with the project team, if need be, will determine if the project should continue, be suspended, or be cancelled. During project execution, AIRAC will compile semiannual project monitoring and evaluation indicators, which are presented in the logical framework (see Annex I); the Country Office and AIRAC will use these to monitor the overall impact and outcomes of the project.

VII. JUSTIFICATION, BENEFITS AND RISKS

A. Justification

- 7.1 Remittances constitute a global phenomenon that presents new development opportunities in poor areas of the country, to the extent that information links and support between local communities and emigrants living abroad are strengthened. The MIF resources will enable these communities to work in coordination and stimulate private sector activities. The innovation being proposed is for a portion of remittances to be used in such a way as to eliminate recipients' reliance upon them. Because of the significant impact remittances have on national accounts as well as the goal of all sectors to participate in alleviating poverty, the project is consistent with the Bank's strategy with the country that emphasizes increased competitiveness through higher productivity.
- 7.2 Not only will the project lead to lower transaction costs, it will also allow remittances to have a multiplier effect on local economies by turning system users into formal banking customers, and will thus contribute more effectively to the development of the productive sector. One of the main obstacles to the economic development of microenterprises and small businesses is the lack of access to financial services, either because of the limited range of services available or the prevalence of products not designed specifically for the sector. Indeed, CACs can

play a very significant role in the sector given that their institutional structure allows for the deepening of the various services to generate business.

- 7.3 **Benefits.** Quantifiable indicators have been developed and include a reduction in the cost of money transfers, enhanced efficiency of remittance transactions, increased membership in cooperatives, cooperatives' mobilized savings, and the creation of new business as well as improved business management in existing small enterprises (details in the logical framework—Annex I).

B. Risks

- 7.4 With regard to the productive use of remittances, it is essential not to divert the flow of remittances toward high risk investments. Furthermore, it is possible that local entrepreneurs and Dominican associations will prefer to maintain their original focus on family and social development and not necessarily shift to productive investments. In that regard, it has been established that the majority of local savings and loan cooperatives maintain membership privileges for those members who live abroad and keep open channels of communication, and the interests of residents abroad and the local population in their country of origin are converging through that close communication.
- 7.5 The Dominican Republic has recently updated legislation and regulations that deal with money laundering and has established an institution the essential function of which is to take measures to control illegal transactions.⁸ The CACs, as financial intermediaries, are legally required to comply with the provisions of this law and those of the Superintendency of Banks and the Drug Control Bureau. In addition, this operation seeks to mitigate any risk of inadvertently paving the way for such activities by hiring specialized consultants (see paragraph 3.6). The Dominican Republic is a member of the Caribbean Financial Action Task Force and has not been flagged in international agency review reports.

VIII. ENVIRONMENTAL AND SOCIAL VIABILITY

- 8.1 The project was reviewed and approved by the Committee on Environment and Social Impact (CESI) on 8 August 2003.

IX. EXCEPTIONS TO BANK POLICY

- 9.1 No exceptions to Bank policy are envisaged.

⁸ Law 72-02 against the laundering of assets stemming from the illegal trafficking of drugs and controlled substances and other felonies (2002) and the Office of Custody and Management of Seized and Confiscated Goods, attached to the National Committee against Asset Laundering.

X. SPECIAL CONTRACTUAL CONDITIONS

- 10.1 The first disbursement of funds will be contingent upon AIRAC's presenting evidence of the creation of the coordinating unit.

LOGICAL FRAMEWORK
MIF –DEVELOPMENT OF FINANCIAL AND BUSINESS SERVICES FOR REMITTANCE RECIPIENTS (TC-03-04-04-2-DR)

NARRATIVE SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Goal: To boost the income of the low-income population in areas affected by migration.	Three years after project execution has concluded, <ul style="list-style-type: none"> The income of the businesses or groups that received project support has grown at a faster rate than did the national economy (three-year average) 	<ul style="list-style-type: none"> Statistics from the Central Bank and the National Statistics Office Final project report Evaluation 	<ul style="list-style-type: none"> Suitable macroeconomic and political framework.
Purpose: To make access to financial and business services easier for a population affected by migration that needs support for productive activities.	During project execution, <ul style="list-style-type: none"> Access to credit for productive investment grows at a faster rate than does the banking sector portfolio, and at a rate above the historic growth rate (1997-2002 average) for the cooperative sector. 	<ul style="list-style-type: none"> Final project report Evaluation AIRAC publications Visits to the cooperatives 	<ul style="list-style-type: none"> Suitable macroeconomic and political framework. Borrowers make their investments in a way that enables them to carry out their projects.
Outputs: 1. The flow of remittances increases as a result of the reduced transfer cost, and membership in the cooperatives grows.	By the end of project execution, <ul style="list-style-type: none"> The cost of sending remittances is reduced from 12-15% to 6-7%. The average number of remittances processed increases by 50%. The transaction cost per remittance is less than US\$1.50. The transaction time per remittance is less than 30 minutes (down to 20 seconds). The number of remittance customers increases 500%. Remittance customer membership grows from 15% to 50%. Information on transactions transmitted transparently and in a timely way to the authorities. 	<ul style="list-style-type: none"> Project progress reports Periodic financial and management reports from the cooperatives and AIRAC Visits to the cooperatives 	<ul style="list-style-type: none"> Sufficient supply of the quality services required for technology, technical assistance, training and dissemination. Sufficient demand for business activities among remittance recipients. Sufficient interest in the project within the associations of Dominicans residing in the United States.

NARRATIVE SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>2. Businesses are launched and/or expanded by remittance recipients.</p> <p>3. The beneficiary population and the communities of Dominican emigrants living abroad are aware of new remittance distribution channels and of alternative uses for remittances (productive investment opportunities)</p>	<ul style="list-style-type: none"> • 30 business activities are started up. • 20 existing small businesses improve efficiency (production, marketing, financial administration). • 3 promotional workshops held in the United States. • 600 man-days of domestic travel to AIRAC's member cooperatives. • 2000 promotional documents distributed. • Website developed. 	<ul style="list-style-type: none"> • Project progress reports • Surveys and visits • AIRAC publications • Project progress reports • AIRAC publications • Promotional materials 	
<p>Activities:</p> <p>Component 1</p> <p>1.1 Hiring of consultants to develop the technology for distribution of remittances</p> <p>1.2 Procurement of server and data storage hardware and software, and contracting of services for the installation thereof</p> <p>1.3 Hiring of trainers for remittance applications</p> <p>Component 2</p> <p>2.1 Hiring of consultants for strategic analyses</p> <p>2.2 Hiring of consultants to develop business plans and/or improve the management of small businesses</p> <p>Component 3</p> <p>3.1 Organization of promotional workshops</p> <p>3.2 Travel</p> <p>3.3 Contracting of service to produce promotional documents and web page</p> <p>3.4 Hiring of consultants to develop the website</p>	<p>BUDGET</p>	<ul style="list-style-type: none"> • Consultants' contracts • Consultants' reports 	<ul style="list-style-type: none"> • AIRAC provides the counterpart funds. • Timely contracting of the required consulting services.