

MOBILIZATION OF LOW-INCOME SAVINGS IN MICROFINANCE INSTITUTIONS

(TC-01-04-01-0)

EXECUTIVE SUMMARY

Executing agency: Fund for Financial System Development and Productive Sector Support (FONDESIF)

Financing:	Modality:	Nonreimbursable
	MIF Window I:	US\$1,220,000
	Local counterpart:	<u>US\$1,230,200</u>
	Total:	US\$2,450,200

Execution timetable:	Execution:	36 months
	Disbursement:	42 months

Beneficiaries: During the project period, it is estimated that the project will directly benefit over 2.5 million people through education campaigns to inculcate a savings culture and that over 28,000 new accounts will be opened by customers who decide for the first time to use deposit services at a microfinance institution (MFI) for purposes of saving.

The low-income population will benefit from the expected results derived from the increased quality and volume of *deposit services*: (i) larger number of deposit products targeted at their needs; (ii) constant innovation in customer service mechanisms (speed, convenience, ease, and treatment); and (iii) increase in total deposit-taking from the public and in the number of savings accounts. These benefits will primarily accrue to people who have not had access to deposit services or who have not found services that meet their needs in terms of security, convenience, liquidity, return, etc. This deepening of financial services to low-income sectors is expected to result in their higher participation in the formal financial sector and to help increase the country's internal savings rate, thereby causing the Bolivian economy to grow.

The successful execution of the project will generate a **significant demonstration effect**, since there is no other known program in the region that fosters the mobilization of savings by low-income groups in MFIs and in which all the promoters of microfinance and the MFIs participate. MIF resources will support a pioneering initiative that could serve as a model for eventual **replication** in other countries in the region.

Project objectives:	<p>The general objective of the project is to help increase the level of deposit-taking from the public by MFIs in Bolivia. The specific objective is to enhance the quality, variety and volume of deposit services offered by participating MFIs, to meet the demands and needs of their traditional clientele primarily.</p>
Description:	<p>The project seeks to build on the efforts of the private sector, the State, international cooperation agencies, and other institutions that promote microfinance, to bring in under a single program various comprehensive actions aimed at improving and expanding the provision of deposit services in MFIs. Through activities to stimulate the demand for and supply of deposit services, and improve the regulatory environment, the project will contribute not only to making these financial services more widely available, but will help reduce the MFIs' over-dependence on large and potentially volatile sources of funding and deposits. At the same time, this project will help to meet a deeply-felt need for services of this kind among the great majority of the population, by offering suitable products and distribution channels.</p> <p>The project will consist of three components, which will be executed simultaneously. These components are intended to promote: (i) an increase in the <i>supply</i> of high-quality, demand-driven deposit services; (ii) an increase in the <i>demand</i> for such services, primarily among low-income groups; and (iii) an improved <i>regulatory environment</i> for deposit-taking in microfinance institutions.</p> <p>The first component will attempt to enhance the quality and variety of the deposit services that MFIs offer their clientele, and to strengthen their technical capacity to effectively manage and market those services. To achieve these goals, the project will involve four categories of activities: (i) planning and marketing; (ii) technological development; (iii) managerial improvement; and (iv) exchange of know-how.</p> <p>The second component seeks to generate demand and create a market for formal deposits, and thus increase the volume of deposits, through education and awareness activities and the development of a "formal savings culture" in the country, with emphasis on low-income groups and on micro and small enterprises. The project will seek to expand public awareness of the importance of this issue in the everyday life of citizens at all levels. The proposed activities will encourage formal savings, in cooperation with senior levels of government and educational institutions, the media and other social channels, by means of educational and publicity campaigns (the press).</p>

The **third component** will examine the current regulatory and legal setting for MFI deposit-taking, and will draw upon successful experience in other countries to provide practical recommendations on possible amendments to encourage both the supply of and the demand for microfinance deposit-taking services in urban and rural markets alike. Once the results of this analysis are in hand, FONDESIF will have meetings and workshops for coordination and sharing of information with the Superintendent of Banks and Financial Institutions (SBEF), the Office of the Deputy Minister for Financial Affairs (VAF), and the participating MFIs in order to examine the feasibility of the recommendations. This component will also support the public dissemination of information and of the results generated by the project, to give national and international exposure to the experiment and the lessons learned from it.

**Special
contractual
clauses:**

Prior to the first disbursement, FONDESIF will submit to the Bank's satisfaction: (i) an annual operating plan for carrying out the activities for the first year of the project, including the sequence for execution of proposed activities, semiannual performance targets, both quantitative and qualitative, and their underlying assumptions; (ii) evidence that the project Operating Regulations are in force; (iii) evidence that the project's executing unit has been set up and that the project director and the assistants have been hired pursuant to terms of reference previously approved by the Bank (see paragraph 5.4); and (iv) evidence that the agreement for the transfer of resources between the Ministry of Finance and FONDESIF for project execution has been signed (see footnote number 9).

Before more than 75% of the Bank's resources have been disbursed, FONDESIF will provide evidence to the Bank's satisfaction that it has conducted a seminar, with wide participation by the private sector, the public sector, and international cooperation agencies, in which the findings and lessons learned through the project up to that point have been analyzed and disseminated and a preliminary proposal prepared to provide continuity for the efforts made under the project in terms of promoting the mobilization of savings by low-income groups in Bolivia (see paragraph 4.4).

**Exceptions to
Bank policy:**

None.

**Environmental
and social
review:**

The Committee on Environment and Social Impact (CESI) reviewed the project on 27 July 2001, and offered no comments or recommendations.

I. COUNTRY AND PROJECT ELIGIBILITY

- 1.1 The Republic of Bolivia was declared eligible for all financing facilities of the Multilateral Investment Fund (MIF) on 6 October 1993. This project is eligible for a grant through the Technical Cooperation Facility (Window I) and is consistent with MIF provisions, since it will support the development and strengthening of the financial system by promoting and expanding the supply of deposit-taking services in microfinance institutions (MFIs).

II. FRAME OF REFERENCE

A. The microfinancial system in Bolivia

- 2.1 Bolivia's microfinancial system is among the most progressive in the region, both in terms of its regulatory framework, which creates a favorable environment for the expansion of microfinancial services, and the number of regulated and specialized institutions operating in the sector. To encourage a more active supply of microcredit, with greater prudence and coordination, the government in 1995 amended the regulatory framework by establishing the concept of Fondos Financieros Privados [Private Financial Funds] (FFPs). As nonbank entities regulated by the Superintendent of Banks and Financial Institutions (SBEF), the FFPs can take deposits, make loans to the public and attract funds from the banking system, but they are not authorized to conduct foreign trade, current account or bank draft transactions. The creation of these specialized microfinance entities represented the region's first experiment in offering facilities to nongovernmental organizations (NGOs) specializing in microcredit to convert themselves into entities regulated by the Superintendent of Banks. On the basis of this experiment, other countries have made similar amendments to allow for the regulation and supervision of microfinance institutions.¹
- 2.2 In June 2000, the Bolivian microfinancial system consisted of three types of regulated institutions: specialized banks—one entity (BancoSol) with a gross portfolio of US\$77 million; Private Financial Funds (FFP)—7 entities specialized in microfinance² serving both urban and rural areas, with a gross portfolio of US\$128 million; and open savings and loan cooperatives (CAC)—17 cooperatives serving urban and rural areas, with a gross portfolio of US\$180 million. The Bolivian microfinancial industry has shown dynamism, creativity and regional leadership with the spread of these microfinance institutions (MFIs) and the introduction of a favorable regulatory framework.

¹ Peru has established "small and micro enterprise development entities" (EDPYME), and Brazil has introduced "enterprise credit societies" (CSM), with promising results.

² Of these, 4 provide financial services for micro enterprise, and 3 are engaged primarily in consumer microcredit.

B. The development of microfinancial services is uneven

- 2.3 If MFIs are to achieve optimum levels of financial and operating efficiency, the range of services they offer will need to expand beyond the provision of credit. This means further developing their capacity to expand the range of services offered to their traditional target group, thereby meeting more fully the needs of their traditional clientele. Yet, in contrast to the progress that has been made in the provision of *microcredit*, the volume of savings raised from the traditional target group for many Bolivian MFIs represents only a small proportion of the total *deposits* mobilized by these institutions.³ Moreover, their lending portfolio reflects a high degree of dependence on a few sources of funds and on second-tier banks. With respect to the cooperatives, most of them betray not only slow growth in the total number of savers (members) but also a sharp imbalance in the composition of accounts, with a few large deposits (generally fixed-term) and others of very small scale, where volumes are virtually frozen from the time they are opened.
- 2.4 Statistics on savings levels in Bolivia reflect that the mobilization of savings from low-income groups falls well below the levels in other countries. For example, the rate of private savings, which come primarily from households, is estimated at 8% of gross domestic product in Bolivia, compared with 24% in India. Bolivian MFIs have made few inroads into the micro and small accounts sector, in comparison with the experience of successful international MFIs. Between 77% and 100% of the volume of deposits in successful MFIs in the Philippines, Mali, and Colombia have balances of less than US\$5,000. Conversely, Bolivian MFIs have only 23% of the volume of deposits in accounts of this type. In addition, there is a significant distortion in Bolivia in the stratification of savings accounts towards high balances, with 78% of the savings volume in the banking system held in accounts belonging to 10% of the depositors, with balances in excess of US\$30,000 on average.
- 2.5 In the face of these shortcomings, there has been little effort either by the private sector or by the government to develop new deposit products for low-income sectors in the MFIs. The entire area of deposit-taking seems to have been overlooked. This problem is especially important for people with few resources who, in practice, not only constitute the principal clientele base for the MFIs but whose need for deposit services is even greater than their need for microcredit.

C. Principal limitations on deposit taking

- 2.6 The major factors that have limited the progress of Bolivian MFIs in mobilizing deposits from the public include, from the institutional perspective (**supply**): (i) the

³ Of the total of deposit accounts with less than US\$5,000 held by supervised institutions in November 2000, 1.91% were kept in the FFPs, 25.03% in the open CACs, 17.56% in the mutual societies for savings and loans, and 55.49% in commercial banks. Some of the commercial banks have recently abandoned efforts to attract small depositors, and many clients with small balances have been forced to close their accounts.

ready availability of alternative sources of funds that are less costly and simpler to administer; (ii) an inadequate understanding on the part of MFIs of the importance of mobilizing deposits, and of the best systems for providing such services; (iii) the limited financing capacity of MFIs for investing in the establishment of deposit services; (iv) under-developed deposit mobilization technologies for extending, consolidating and diversifying savings services, in a manner consistent with the demands of their target group; and (v) the consequent difficulty in designing effective and low-cost strategies for promoting these services.

- 2.7 On the other hand, the modest performance of deposit-taking from the client viewpoint (**demand**) is explained primarily by the following factors: (i) most low-income people have little disposition towards formal savings (in financial institutions); (ii) small-scale savers and borrowers have little knowledge of the deposit services offered by the MFIs; and (iii) this clientele is wary of depositing its savings at a scale that would allow the MFIs to offer sustained service.
- 2.8 It should be noted that, while there is no **deposit insurance** in Bolivia, the government is considering draft legislation to create a system of deposit guarantees for accounts of up to US\$10,000. A guarantee of this kind would strengthen depositor confidence in the financial system, and provide protection for deposited savings, thereby promoting a greater mobilization of deposits in general. Although early approval of this legislation is not expected, the Central Bank does in fact provide implicit insurance for the public's deposits held in financial entities licensed by the SBEF. The Central Bank assumes an implicit obligation to return savings to depositors, as part of liquidation proceedings for financial entities under the SBEF's responsibility. Thus, despite the lack of any formal deposit insurance system, the Central Bank has shown its commitment and ability to protect depositors in Bolivian financial institutions.

D. A comprehensive, industry-wide proposal

- 2.9 Aware of these challenges, the Fund for Financial System Development and Productive Sector Support (FONDESIF), as the entity that guides and coordinates support for the microfinancial industry in Bolivia, has taken the initiative of inviting entities of the private sector, the government, and international cooperation to support its plans for an industry-wide drive to mobilize savings by low-income groups in the MFIs. To this end, FONDESIF has requested the Bank to provide MIF-funded technical cooperation for the project proposed here.
- 2.10 The value added by the present project is based on channeling and combining the efforts of the private sector, the government, international cooperation agencies, and other entities that promote microfinance, through a single program aimed at improving and expanding the provision of deposit services in MFIs. Essentially, the intention is to generate synergy among these players by establishing an umbrella organization (within FONDESIF) that will sponsor *sector initiatives* that will be

available to all regulated institutions in the sector. In addition, the project will supplement efforts already under way to enhance the regulatory and legal framework that determines the performance of these institutions in providing financial services of this kind. The project will thereby contribute not only to making these financial services more widely available, but will help reduce the MFIs' over-dependence on a few large and potentially volatile sources of funding and deposits. At the same time, and even more importantly, this project will help to meet a deeply-felt need for services of this kind among the great majority of the population, by offering suitable products and distribution channels.

III. PROJECT OBJECTIVES AND COMPONENTS

A. Objectives

- 3.1 The general objective is to help increase the level of deposit-taking from the public by microfinance institutions (MFIs) in Bolivia. The specific objective is to enhance the quality, variety and volume of deposit services offered by participating MFIs,⁴ to meet the demands and needs of their traditional clientele primarily.

B. Description and components

- 3.2 To achieve these objectives, the project is comprised of three components, which will be executed simultaneously. These components are intended to promote an increase in the *supply* of high-quality, demand-driven deposit services; an increase in the *demand* for such services, primarily among low-income groups; and an improved regulatory environment for the development of savings in microfinance institutions by low-income groups.

1. Development and expansion of MFI deposit services (MIF US\$763,000; counterpart US\$830,000)

- 3.3 The purposes of the first component are to enhance the quality, variety and volume of the depositor services that MFIs offer their clientele, and to strengthen their technical capacity to effectively manage and market those services. To achieve these goals, the project will involve four categories of activities: (i) planning and marketing; (ii) technological development; (iii) managerial improvement; and (iv) exchange of know-how.

- a. **Planning and marketing.** FONDESIC will contract for technical assistance aimed at reinforcing the image of the MFIs in their target market, as reliable, efficient and responsible institutions, and to improve their marketing abilities.

⁴ The MFIs that will participate in the project are expected to include primarily open CACs, FFPs, and Banco Sol. Nevertheless, the project's intention is for other commercial banks and mutual societies for savings and loans participate as well, depending on their interest in this issue.

Funds will be used for technical assistance in promoting the image of the MFIs, planning their business strategies and their marketing approach. These activities will help the MFIs to define their markets and to establish pricing policies, distribution channels and criteria, and promotional activities. Among other instruments, the project will use the "marketing tool kit"⁵ that will be adapted to each particular case.

- b. **Technological development.** These activities will support innovations aimed at generating and applying tools, new concepts, and systems to processes that will make it possible to reduce costs and improve the quality of MFI deposit services, and thereby broaden their scope. On one hand, funding will be provided for feasibility studies of new operational technologies and new deposit products. On the other hand, based on the results of these studies, the project will assist in testing those new services, products and technologies for which the feasibility studies have been most positive. Some five pilot projects are expected to be cofinanced with contributions from participating MFIs to validate the innovations identified. In addition, funds from the counterpart and the participating MFIs will be used to provide partial supplementary support⁶ for investment and startup expenses, including infrastructure, equipment, materials and services. This will help the MFIs reduce the cost and risk of establishing a new deposit service or product.

Some examples of the new products expected to be developed are worth noting: (i) the introduction of certain innovative products (such as mobile deposit-taking services); (ii) products designed for specific groups (youth, teachers, farmers, etc.); and (iii) adjustments to traditional product lines (savings banks, time deposits) with differences as to liquidity level, interest rate, minimum amounts, or other characteristics, which respond to the demands and requirements of identified market segments.

- c. **Managerial improvement.** The project will fund activities to improve the provision of deposit services by instituting modern procedures and systems at both the managerial and the operating level. Technical assistance (consulting services) and training will be provided to strengthen administration (applying instruments for managing risk, liquidity, product costing and internal control) and organization (design of organizational structure, preparation of bylaws

⁵ The Marketing Toolkit is a practical manual developed exclusively for MFIs. It serves as a guide to technical assistance in implementing an overall marketing program, developing basic marketing concepts, and a business and operating strategy.

⁶ The supplementary infrastructure support will be provided for rehabilitating premises for the offer of deposit services almost exclusively; the equipment will be for administrative and operational tasks, the materials will be earmarked for promoting deposit services, while the services will be in aid of publicity activities or the design of publicity campaigns.

and manuals, and human resource administration and development, including incentives).

- d. **Exchange of know-how.** Since one of the most effective training methods is direct, hands-on experience in working with a technology or process, the project will support personnel exchanges and study assignments for Bolivian MFI personnel in similar institutions whose technological features and advances could be replicated in Bolivia. Funding will also be provided for training seminars and conferences, with international experts in MFI deposit mobilization, where successful experiments can be examined for possible adoption in Bolivia.

2. Awareness and dissemination of a formal savings culture (MIF US\$190,000; counterpart US\$150,000)

- 3.4 The purpose of this component is to generate demand and create a market for formal deposits, through efforts at education, awareness and development of a "formal savings culture" in the country, with a particular emphasis on low-income groups. The project will seek to expand public awareness of the importance of this issue in the everyday life of citizens at all levels. The proposed activities will encourage formal savings, in cooperation with senior levels of government and educational institutions, the media and other social channels, by means of educational and publicity campaigns. In conducting these campaigns, FONDESIF will hire consultants to design them and to identify training organizations that can undertake mass mobilization campaigns among the low-income population.

- a. **Education campaigns.** These will include both broad-based campaigns and campaigns targeted at specific social groups (entrepreneurs, mothers' clubs, working women, students, etc.). The project will sponsor various outreach activities to encourage formal savings. All promotional efforts will be eligible for support, provided they are directed at encouraging these target groups to take advantage of deposit services and products offered by the MFIs. In this context, the various microfinance industry associations will play a key role.⁷ As well, to ensure the greatest possible impact of these promotional efforts, an attempt will be made to secure a high degree of participation both by institutions of the nonfinancial sector (health and education programs, etc.) and by the target group.
- b. **Publicity campaign.** The project will supplement these grassroots activities with other information mechanisms that can reach and evoke the interest of different levels of society. FONDESIF and the participating MFIs will

⁷ Association of Financial Institutions Specialized in Microfinance (ASOFIN), Association of Financial Institutions for Rural Development (FINRURAL), and the Cooperative Development Unit (UNDECOOP), among others.

produce news bulletins and reports on the campaigns under way and on progress achieved with the project. The various mass media will be used (TV, radio, newspapers, magazines), and professionals with economic experience will be invited to contribute.

- 3.5 To measure the impact of the education and publicity campaigns, FONDESIF will engage a consultant to conduct surveys among the target groups, the general public, and control groups. The information gathered from the surveys will be channeled to FONDESIF and to participating MFIs, and used to make any adjustments required in the education and publicity strategy, as well as to measure changes in the understanding, attitude and practices of the people who have been informed through the various campaigns.

3. Improving the national environment for mobilizing MFI deposits (MIF US\$70,000; counterpart US\$65,000)

- 3.6 The main purpose of this component is to examine the current regulatory and legal setting for MFI deposit-taking, and to gauge successful experience in other countries, in order to make practical recommendations for possible modifications that would encourage an extension of the supply of and demand for microfinance deposit services, in both urban and rural markets. On the basis of suggestions for specific topics of interest to the SBEF, the Vice-Ministry of Financial Affairs (VAF) and participating MFIs, FONDESIF will contract technical assistance to carry out these studies. Once the results of the analysis are in hand, FONDESIF will hold meetings and workshops for coordination and sharing of information with those institutions, to examine the feasibility of the various recommendations.
- 3.7 In addition, this component will support the public dissemination of information and the results generated by the project, to give national and international exposure to the experiment and the lessons learned from it. To this end, FONDESIF will coordinate and sponsor seminars and events with representatives of the public and private sectors, and will cohost national and international conferences. As well, to keep the general public abreast of the information generated by the project, FONDESIF will establish a special section on its web page dedicated to disseminating results, documentation and events sponsored by the project.

IV. COST AND FINANCING

A. Cost

- 4.1 The total budget for the project is US\$2,450,200, of which the MIF will finance US\$1,220,000 on a nonreimbursable basis, as a charge to Window I. FONDESIF will contribute US\$1,230,200 as the local counterpart, of which US\$1,040,000 will

be in cash, in accordance with the budget shown below (in US dollars). The detailed budget can be found in the project's technical files.

(US\$)

Description	MIF	Local	Total
I. Development and expansion of MFI deposit taking services	763,000	830,000	1,593,000
II. Awareness and dissemination of a formal savings culture	190,000	150,000	340,000
III. Improving the environment for mobilizing deposits in MFIs	70,000	65,000	135,000
IV. Project administration	128,000	170,200	298,200
V. Monitoring, evaluation and audit	26,000	15,000	41,000
VI. Contingencies	43,000	0	43,000
Total	1,220,000	1,230,000	2,450,200
Percentages	50%	50%	100%

- 4.2 It should be noted that FONDESIF will be responsible for ensuring that 100% of the counterpart is provided. It is anticipated that 30% of the local counterpart contribution will be provided by the Bolivian private-sector institutions that will be participating in the project. FONDESIF will receive this contribution from the participating MFIs through the cofinancing of most activities according to the Operating Regulations (see paragraphs 5.6 and 5.7). FONDESIF will receive part of the contribution from other international cooperation agencies,⁸ with which it has already signed letters of intent.

B. Project sustainability

- 4.3 The project calls for a series of activities that will give a significant impulse to generating a "market" (supply and demand) for deposit services in microfinance institutions. It is expected that through the provision of: (i) technical assistance, training and other types of support to private MFIs; (ii) awareness and publicity initiatives; and (iii) support to the public sector in improving the national environment, the necessary conditions can be created so that MFIs can develop *profitable and sustainable products and services* that will continue after the project is completed. The project's sustainability will therefore be measurable in terms of growth in the variety, number and volume of deposit services in Bolivian MFIs.
- 4.4 This project is a pilot effort to promote mobilization of low-income savings through both demand from low-income sectors and supply from MFIs. Given the scope of the problem, this project is only a first step in a medium- to long-term process of deepening and expanding deposit services in Bolivia. To ensure that FONDESIF takes the necessary measures to ensure the continuity of the process, the

⁸ These include the Spanish International Cooperation Agency (AECI), the European Commission (EC), and the Rural Financial Services project (SEFIR) funded by the U.S. Agency for International Development.

disbursement of over 75% of the contribution will be subject to FONDESIF's using one of the project-sponsored seminars to: (i) analyze the progress achieved in promoting a culture of savings and improving the supply of deposit services; (ii) glean the lessons learned in the project and disseminate them in the region; and (iii) propose a continuity plan to ensure that the efforts move forward after the MIF project ends (see paragraph 8.2).

V. EXECUTING AGENCY AND MECHANISM

A. The executing agency

- 5.1 Project execution will be the responsibility of the Fund for Financial System Development and Productive Sector Support (FONDESIF).⁹ FONDESIF was created in 1995 as a decentralized public entity, with the initial purpose of expanding the capital base of the financial intermediation system in the country and enhancing the availability of financial resources for Bolivia's productive sector. In 1999, the Bolivian government expanded FONDESIF's mandate **in the area of microfinance**, primarily through: (i) *expanding the coverage of financial services* to under-served rural and urban areas; (ii) *diversifying financial services*, through the expansion and improvement of products, technologies and services; and (iii) *formalization and sustainability of nonbanking financial institutions* in Bolivia. As a specialized entity supporting the microfinance sector,¹⁰ FONDESIF plays a role of articulation between international cooperation agencies and intermediary financial institutions.
- 5.2 FONDESIF is organized with an Executive Council as its senior management and decision-making body, consisting of the Minister of Finance (who chairs it), two representatives of the Central Bank of Bolivia (its president and another official appointed by its board), the Deputy Minister of Financial Affairs, and the Superintendent of Banks and Financial Institutions, who has the powers and

⁹ Given that FONDESIF is a public institution and that the public sector's interlocutor with the Bank is the Ministry of Finance, the Bank will sign a technical-cooperation agreement with the Ministry of Finance and the latter will sign a subsidiary agreement with FONDESIF, specifying the details of the transfer of funds and the responsibility for project execution.

¹⁰ The comprehensive support mechanism that FONDESIF uses with the MFIs to strengthen their capacities is based on three activities: (i) portfolio financing through loans to non-regulated MFIs, which amounted to US\$22.6 million as of June, 2001; (ii) technical assistance to regulated and non-regulated MFIs, consisting of nonreimbursable funds for the purchase of goods and consulting services for improving their managerial and operational capacities, in order to encourage the development of new financial products and the opening of new agencies in under-served areas; and (iii) support for development of the microfinance sector in Bolivia by financing research on new technologies and products, creating conditions favorable to the establishment of financial entities in under-served areas, and human resource training. In these three areas, FONDESIF has provided support for 133 MFI agencies (71% in rural areas), and has provided funding for 69 localities in 8 departments of the country.

responsibilities of a trustee [*síndico*]. Legal representation, as well as operational and administrative decisions, are delegated to the Executive Secretary.

- 5.3 Through ASOFIN and FINRURAL and the second-tier banks NAFIBO and FUNDAPRO, specialized private-sector entities have been working in close coordination with FONDESIF to develop the microfinance sector. For this reason, the project calls for active participation in its execution by MFIs that are members of these private associations, by taking direct responsibility for carrying out activities and covering a portion of their costs. It is expected that the MFI members of ASOFIN will participate in this scheme, as well as two banks whose operations are largely focused on the personal banking segment (Banco de Crédito and Banco Unión) and several of the 26 open savings and loan cooperatives that report to the SBEF, along with the mutual savings and loan societies.

B. Execution mechanism

- 5.4 FONDESIF will establish an executing unit to execute the project, consisting of a project coordinator, an administrative assistant and an operations officer. The project director will be responsible for execution of the project's activities and for fulfilling its objectives. The executing unit will be responsible for: (i) managing project activities in accordance with the action plan and the Operating Regulations; (ii) contracting for goods and services; (iii) supervising consultants; (iv) managerial and budget control, using established procedures; (v) processing requests for disbursement from the Bank's contribution; (vi) preparing financial statements for the funds used; (vii) presenting administrative and technical reports to the Bank; and (viii) coordinating activities with representatives of participating MFIs and international cooperation agencies as necessary for execution of the project. The executing unit will be supervised by the Executive Secretary of FONDESIF, who will be responsible for concluding negotiations between public and private entities to ensure that project objectives are achieved.
- 5.5 To facilitate the project's execution and ensure that it addresses the interests of all the actors involved in it, FONDESIF will create a Planning and Monitoring Committee, with three representatives of the public sector (VIPFE, VAF and SBEF), two representatives of participating MFIs to be selected by them, representatives of financial contributors to the project, and the Executive Secretary of FONDESIF, as Secretary. The committee will require active participation, particularly by the representatives of the MFIs and other contributors to the project, to ensure that the project's activities are focused and meet their demands and needs. It will meet at least twice a year to review and approve the plans, guidelines, and reports prepared by FONDESIF, and to monitor project activities and results. The committee will ensure that the work plans are implemented quickly and efficiently, will provide feedback to the executing unit on its performance, and will propose recommendations and solutions to address any problems or deficiencies that the project may encounter. The committee's decisions will be adopted by consensus.

The hiring and removal of the project director and assistants will require the committee's and FONDESIF's consent, prior to the Bank's nonobjection being requested.

- 5.6 The executing unit will carry out the project in accordance with the Operating Regulations, the entry into force of which will be a condition precedent to the first disbursement (see paragraph 8.1). The Operating Regulations, which are available in the project's technical files, contain: (i) a detailed description of the components; (ii) the minimum content requirements for proposals¹¹ to be submitted to FONDESIF by the MFIs to access project resources and carry out the activities; (iii) the proposal selection approval procedure; (iv) the mechanism for allocating funds, both from the MIF and local counterpart contributions, including cofinancing of activities by participating MFIs; and (v) the functions and responsibilities of the executing unit and the Planning and Monitoring Committee.
- 5.7 The executing unit will adopt transparent, competitive, and documented mechanisms, pursuant to the procedures set out in the Operating Regulations, to carry out the proposed activities in the areas of technical assistance, training, and pilot projects described in the various components. The three mechanisms are: (i) the receipt and selection of specific requests from the MFIs (via demand); (ii) the supply of services or products by the project to the universe of Bolivian MFIs; and (iii) direct invitation. Each of the three mechanisms has its own analysis and award procedures, which are detailed in the Operating Regulations. The most significant aspects of the Operating Regulations regarding procedures to be followed in the use of these mechanisms are the following: (a) the executing unit will perform an analysis of the requesting institutions, applying the eligibility criteria established in the Operating Regulations, which require that the entity receive 65 points out of 100, based on an analysis of institutional experience, financial position, and operational capacity; (b) the executing unit will evaluate the technical proposal of each entity declared *eligible*, according to the specifications of each bidding process; (c) the proposals with the highest technical qualifications will be selected; (d) each proposal presented by an MFI for use of project resources will include the absolute amount and the percentage of the total cost that represents the requesting MFI's own contribution (cofinancing), which will affect the evaluation of the proposal.

C. Execution and disbursement periods

- 5.8 The project execution period will be 36 months, and the disbursement period will be 42 months. The Bank will establish a revolving fund of up to 10% of the total

¹¹ Including, *inter alia*, background information on the requesting entity, a description of the request, including the amount of its own contribution, the technical proposal, performance projections and indicators, and economic and financial information on the MFI.

amount approved, based on an expenditure forecast that FONDESIF will submit for the Bank's approval.

D. Procurement

- 5.9 FONDESIF will conduct the procurement of goods and services and the contracting of consulting services as necessary for project execution, in accordance with Bank and MIF procedures and policies.

E. Accounts and auditing

- 5.10 FONDESIF will maintain proper internal accounts and financial control over project funds. The accounting system will be organized to provide the necessary documents, permit verification of transactions and facilitate the timely preparation of financial statements and reports. FONDESIF will also: (i) open separate and specific bank accounts for administering the MIF contributions and the local counterpart funds; (ii) process disbursement requests and their supporting documentation on expenditures, consistent with Bank disbursement procedures; and (iii) present to the Bank a final financial statement audited by an independent firm acceptable to the Bank, as well as semiannual financial reports on the status of the revolving fund.

VI. MONITORING AND EVALUATION

A. Monitoring

1. FONDESIF's monitoring activities

- 6.1 FONDESIF will be responsible for compiling and analyzing information needed for continuous monitoring of the principal indicators established in the project's logical framework and other benchmarks. To facilitate this task, a consultant will be hired at the outset of the project to design the system for monitoring the indicators and activities. FONDESIF and the Bank will use this system and these indicators to supervise and evaluate the project, and they will be taken into account both in preparing the semiannual progress reports and in the midterm and final evaluations. The technical files contain a list of projected performance indicators that will serve to set targets for the various project activities. The contractual indicators are those that are included in the logical framework (Annex I).

2. Progress reports

- 6.2 FONDESIF will be responsible for preparing semiannual progress reports, documenting activities during the previous six months, and for preparing a work plan and a disbursement schedule for the following period, in accordance with the indicators in the project logical framework and in the benchmarks available in the

technical files. These reports will be submitted to the Bank's Country Office for approval within 60 days after the end of each six-month period. They will be prepared in a format agreed in advance with the Bank, and will contain information on activities during the period under analysis, budgetary performance and results achieved. They will also include information on the order of execution of activities proposed under each component for the following six-month period, to ensure a logical sequence for interdependent activities. Similarly, the Country Office will be responsible for providing the MIF with a report three months after the project is completed, indicating the results achieved.

- 6.3 In the case of significant shortfalls (more than 20%) in meeting the performance indicators in the project's logical framework, the Bank may suspend disbursement of project funds. If any of these indicators should deteriorate, FONDESIF will have 30 calendar days to agree with the Bank on measures to correct the situation. At the end of that time, or if the situation has not improved to the Bank's satisfaction, future disbursements may be suspended or canceled.

B. Evaluations

- 6.4 When at least 50% of the MIF resources has been disbursed, or after 18 months of execution (50% of the total period) have elapsed, the Bank will draw upon project funds to hire a consultant to conduct an independent midterm evaluation of results to date. This evaluation will examine progress under the project, using the performance indicators as reference, and will recommend any adjustments to the design or goals of the project, as necessary. In addition, at the end of project execution, a final independent evaluation will be conducted to consider the impact on project beneficiaries and participants, in light of the indicators in the logical framework, other project performance indicators, and the sustainability of the services developed.

VII. JUSTIFICATION AND RISKS

A. Project benefits and impact

- 7.1 The project will have an impact at three specific levels: (i) on clients and the beneficiary public; (ii) on participating MFIs; and (iii) on the legal and regulatory setting.
- 7.2 The *public* in general, and the low-income sectors in particular, will be the main beneficiaries of the project, through the expected outcomes stemming from the increase in the quality and volume of *deposit services*: (i) greater variety of deposit products as a reflection of public demand; (ii) continuous innovation in methods and mechanisms for serving depositors (speed, convenience, service and handling); and (iii) increase in total deposits from the public, from lower-income groups, and

an increase in the number of savings accounts below US\$5,000. These benefits will primarily accrue to individuals who have not had access to deposit services or have not found services that meet their needs in terms of security, convenience, liquidity, return, etc. The deepening of financial services to low-income sectors is expected to result in their higher participation in the formal financial sector and to help increase the country's internal savings rate, thereby causing the Bolivian economy to grow.

- 7.3 *Participating MFIs* will benefit through: (i) greater returns from the provision of deposit services; (ii) mastery of management processes and tools and marketing tools relating to the provision of deposit services; (iii) broader and better targeted promotion by MFIs of their deposit products; (iv) a reserve of human resources trained in the management and marketing of deposit services; (v) a better liability (funding) structure, through diversification of the funding risk and reduced dependence on cyclical resources; and (vi) the permanent capacity to be able to continue designing and offering, without external support, deposit services and products that are adapted to the specific needs and requirements of their various customers.
- 7.4 In terms of improving the *legal and regulatory environment and the economic policy setting*, the project will result in: (i) the adoption of more refined regulatory and supervisory approaches and methods (as they relate to MFI deposits) that will improve the regulatory setting for deposit taking; and (ii) the adoption of economic policies, legislation and regulations that will encourage expanded supply of and demand for microfinancial deposit services.
- 7.5 The successful execution of the project is expected to generate a **significant demonstration effect**, since there is no other known program in the region that fosters the mobilization of savings by low-income groups in MFIs and in which all the promoters of microfinance (international cooperation, government, sector institutions) and the MFIs participate. MIF resources will support a pioneering initiative that could serve as a model for eventual **replication** in other countries in the region. This project is consistent with the basic activities identified by the Working Group on MIF Strategy relating to the *strengthening of microfinance institutions and the development of capital markets*.

B. Beneficiaries

- 7.6 Bolivia's low-income families will constitute the prime beneficiaries of the project, the goal of which is to improve access for this great majority to deposit services that meet their needs. The project is expected to provide direct benefits to more than 2.5 million people, through education campaigns to inculcate a savings culture, while more than 28,000 new accounts are expected to be opened by customers who decide to make use of deposit services in microfinance institutions for the first time, for the purpose of savings, during the project period. Although the project is not exclusively or explicitly focused on rural areas, it is expected that project activities

as a whole will have both an urban and a rural impact, with special attention to under-served areas, through the commercial banking system as well as the MFIs. Once the depositor services are developed and tested, the MFIs will introduce them wherever possible in their agencies and branches.

C. Risks

- 7.7 The Bank has no experience in supporting a pilot project of this type to mobilize low-income savings. The program will face a number of significant risks, given its innovative approach to tackling the causes of the problem through activities that embrace the entire sector, that are coordinated by a public-sector entity, and where results cannot be completely guaranteed. The apparent domination of the public sector in the coordination of the project raises doubts regarding its capacity to respond effectively to the needs of the private sector and low-income groups. There is the risk that FONDESIF may bureaucratize program execution thereby lessening its flexibility and efficiency. As a decentralized and autonomous entity, however, FONDESIF has demonstrated in previous projects financed by international cooperation that it has the capacity and the means to operate efficiently and produce results, and it has earned a reputation as a serious and professional institution. As well, it will have the help of expert consultants within a specialized project executing unit, and an operating mechanism for consultation and feedback (the Planning and Monitoring Committee, see paragraph 5.5) with project participants and cofinancing entities, which should significantly reduce this risk, through their proactive role in reviewing and monitoring project plans and activities.
- 7.8 Yet there are no known similar Bank programs that have included components to increase the awareness of a formal savings culture in the society in general. This project proposes an untested pilot methodology that intuitively could have a positive impact but does not enjoy the luxury of lessons learned on the topic. Given the uncertain reaction of the public and of financial institutions to the proposed awareness, information and motivation campaigns for encouraging savings, there is a risk that these campaigns will not achieve the expected results. FONDESIF will hire a consultant to design an education and publicity strategy that will make use of focus groups and other methodologies to assist in identifying the most effective media channels for achieving the greatest impact. As well, the project calls for a series of surveys of the general public and of target groups, for measuring the impact and results of those campaigns, as a basis for making any adjustments needed to optimize their impact. These measures are expected to help offset this risk.

D. Social and environmental review

- 7.9 The Committee on Environment and Social Impact (CESI) reviewed the project on 27 July 2001, and offered no comments or recommendations.

VIII. SPECIAL CONTRACTUAL CONDITIONS

A. Conditions precedent to the first disbursement

- 8.1 Prior to the first disbursement, FONDESIF will submit to the Bank's satisfaction: (i) an annual operating plan for the first year of the project, including the sequence of execution of the proposed activities, semiannual performance targets, both quantitative and qualitative, and their underlying assumptions; (ii) evidence that the project Operating Regulations are in force; (iii) evidence that the project executing unit has been established and that the project director and the assistants have been hired pursuant to terms of reference previously approved by the Bank; and (iv) evidence that the agreement for the transfer of resources between the Ministry of Finance and FONDESIF for project execution has been signed (see footnote number 9).

B. Other contractual conditions

- 8.2 Before more than 75% of the Bank's resources have been disbursed, FONDESIF will provide evidence to the Bank's satisfaction that it has conducted a seminar, with wide participation by the private sector, the public sector, and international cooperation agencies, in which the findings and lessons learned through the project up to that point have been analyzed and disseminated and a preliminary proposal prepared to provide continuity for the efforts made under the project in terms of promoting the mobilization of savings by low-income groups in Bolivia (see paragraph 4.4).

C. Status of project preparation

- 8.3 The major features of project execution are at an advanced stage of preparation. FONDESIF has submitted to the Bank evidence that the counterpart funding has been committed, the terms of reference for the principal consultants have been drawn up and the draft Operating Regulations have been prepared. The project team has confirmed that there is wide interest among the MFIs, the private sector, the Superintendent of Banks and various other institutions of international cooperation in implementing the project, and in participating in it actively.

LOGICAL FRAMEWORK

(TC-01-04-01-0)

Mobilization of Low-income Savings in Microfinance Institutions

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
the level of public in Bolivian MFIs.	<ul style="list-style-type: none"> Number and volume of MFI deposit accounts. 	<ul style="list-style-type: none"> Monthly bulletins of the Superintendent of Banks and Financial Institutions (SBEF) 	
quality, variety and volume of services of participating needs and demands of their	<ul style="list-style-type: none"> Number of new clients using participating MFI's deposit services rises 8% annually until completion of the project. The number of active deposit accounts in participating MFIs grows by 15% annually until the end of the project. . The deposit portfolio of participating MFIs grows 20% annually until the end of the project. 	<ul style="list-style-type: none"> FONDESIF monitoring reports Financial statements and reports from participating MFIs 	<ul style="list-style-type: none"> The government will make changes to its current policy MFI deposits
TS			
<i>Mobilization services developed</i>	<ul style="list-style-type: none"> At least 6 MFIs join the project each year during the execution period. At least 10 MFIs have introduced new deposit services by the end of the project At least 3 new, previously lacking, savings products for different market segments are developed and implemented. At least 65% of people trained under the project are working in MFI deposit-taking programs or units by the end of the project. 	<ul style="list-style-type: none"> FONDESIF reports Reports from FONDESIF and participating MFIs Evaluation reports 	<ul style="list-style-type: none"> MFIs are prepared to amend institutional structures in order to accommodate a deposit-taking The new services prove less other MFI funding sources.
<i>"formal savings culture" understood by the general low-income groups in particular</i>	<ul style="list-style-type: none"> At least 70% of people in selected groups of the target population can correctly identify the advantages of using deposit services 	<ul style="list-style-type: none"> Surveys conducted by FONDESIF FONDESIF reports Evaluation reports 	<ul style="list-style-type: none"> The target population will p its understanding of a savin
<i>to improve the regulatory deposit taking produced and</i>	<ul style="list-style-type: none"> Documents prepared under this component have been negotiated and agreed with the principal players in the microfinance sector, including the Superintendent of Banks and the Office of the Deputy Minister for Financial Affairs (VAF). 	<ul style="list-style-type: none"> Documents prepared FONDESIF reports Possible new laws or regulations issued Evaluation reports 	<ul style="list-style-type: none"> The Superintendent of Bank Office of the Deputy Minister Financial Affairs will adopt recommended by the projec

BRIEF SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Development and expansion of deposit services</p> <p>Assistance for technological development</p> <p>Assistance in the areas of new technologies, new products and schemes.</p> <p>Attempts to validate the innovations selection criteria and procedures (projects, monitoring and evaluation of results, etc.).</p> <p>Assistance to improve MFI management</p> <p>Consulting and training services for strengthening the managerial and financial system.</p> <p>Assistance in the areas of the managerial and operating system.</p> <p>Consulting services to design the organizational structure, prepare bylaws, resource administration and management, etc.</p> <p>Assistance in the purchase of equipment</p> <p>Assistance for marketing</p> <p>Consulting services for image promotion, planning and operational management.</p> <p>Consulting and training for marketing research training.</p> <p>Transfer of know-how for promoting credit-taking</p> <p>Consulting services, seminars and conference materials.</p>	<p>Project Budget – Component 1:</p> <p>MIF: US\$763,000</p> <p>Counterpart: US\$830,000</p>	<ul style="list-style-type: none"> • FONDESIF narrative and financial reports • Consultants' reports • Reports from MFIs conducting pilot experiments • Evaluation reports 	<ul style="list-style-type: none"> • The private sector (MFIs) is participating in the project and making the corresponding contribution. • There are enough cases or interest in involving MFI savings around the country to allow for the exchange of knowledge.

BRIEF SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Awareness and dissemination of savings culture</p> <p>and publicity campaign</p> <p>services to design an and publicity campaign</p> <p>on of organizations (grassroots intermediaries) capable of mass n of low-income groups. on meetings and seminars of educational materials (fact sheets, etc.) and contents icity campaign</p> <p>the education and publicity</p> <p>the campaigns</p> <p>f groups representative of the ation</p> <p>he groups selected</p>	<p>Project Budget – Component 2:</p> <p>MIF: US\$190,000</p> <p>Counterpart: US\$150,000</p>	<ul style="list-style-type: none"> • FONDESIF narrative and financial reports • Consultants' reports • Evaluation reports 	<ul style="list-style-type: none"> • Grassroots organizations, financial intermediaries and the commercial media understand the importance of savings, and will support project initiatives.
<p>Improving the national MFI deposit-taking</p> <p>assistance to analyze the and legislative framework</p> <p>services to analyze possible s to the regulatory framework MFI deposit taking. on meetings with the ent of Banks, VAF and others.</p> <p>n of information</p> <p>nd other events with public and or representatives</p> <p>nd international conference</p>	<p>Project Budget – Component 3:</p> <p>MIF: US\$70,000</p> <p>Counterpart: US\$65,000</p>	<ul style="list-style-type: none"> • FONDESIF narrative and financial reports • Consultants' reports • Evaluation reports 	<ul style="list-style-type: none"> • The Superintendent of Banks and other organizations related to microfinance are willing to support the project.

PROPOSED RESOLUTION

**BOLIVIA. NONREIMBURSABLE TECHNICAL COOPERATION FOR THE
MOBILIZATION OF SAVINGS DEPOSITS IN MICROFINANCE
INSTITUTIONS**

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 Ministry of Finance, 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 the mobilization of savings deposits in microfinance institutions.

2. That up to the amount of US\$1,220,000, or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to resources of the Technical Cooperation Facility of the Multilateral Investment Fund.

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