

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND

**ECUADOR**

**ALTERNATIVE REMITTANCE DISTRIBUTION CHANNEL FOR  
SMALL ECUADORIAN FINANCIAL INTERMEDIARIES**

**(EC-M1022)**

**DONORS MEMORANDUM**

This document was prepared by the project team consisting of: Rosa Matilde Guerrero (COF/CEC) and Nobuyuki Otsuka (MIF/OPS), Project Team Coleaders; Luís Giorgio (RE3/FI3); Miguel Aldaz (MIF/IKM); Carla Bueso (MIF/DEU); Gerónimo Frigerio (LEG); and Jessica Olivan (MIF/OPS), who helped to prepare this document.

## CONTENTS

### EXECUTIVE SUMMARY

|      |   |   |
|------|---|---|
| I.   | BACKGROUND.....   | 1 |
| A.   | Remittances in Latin America and the Caribbean.....   | 1 |
| B.   | Remittances in Ecuador.....   | 1 |
| C.   | Issues.....   | 2 |
| D.   | Alternative solution.....   | 2 |
| E.   | Rationale.....  | 4 |
| II.  | PROGRAM OBJECTIVES AND COMPONENTS.....  | 4 |
| A.   | Objectives.....   | 4 |
| B.   | Components and activities.....  | 4 |
| 1.   | Component 1: Preparation and training of the credit unions to join the remittance networks..... | 5 |
| 2.   | Component 2: Connection of remittance networks to the SNP.....                                  | 5 |
| 3.   | Component 3: Evaluation and dissemination of outcomes.....                                      | 6 |
| III. | COST AND FINANCING.....   | 6 |
| IV.  | EXECUTING AGENCY AND EXECUTION MECHANISM.....   | 7 |
| V.   | MONITORING AND EVALUATION.....  | 8 |
| VI.  | BENEFITS AND RISKS.....   | 8 |
| A.   | Benefits.....   | 8 |
| B.   | Risks.....  | 9 |
| VII. | ENVIRONMENTAL AND SOCIAL REVIEW.....  | 9 |

## **ANNEXES**

|           |                                     |
|-----------|-------------------------------------|
| Annex I   | Logical Framework                   |
| Annex I   | Summary Budget                      |
| Annex III | Projects in the Remittances Cluster |

## **APPENDICES**

Proposed resolution

**INFORMATION AVAILABLE IN THE MIF TECHNICAL FILES**

|              |   |
|--------------|---|
| Document I   | Terms of reference for the project executing unit staff   |
| Document II  | Diagram of the electronic remittance distribution channel |
| Document III | Overview of the National Payment System                   |
| Document IV  | Procurement plan  |

## **ABBREVIATIONS**

|       |   |
|-------|---|
| AWP   | Annual work plan  |
| BCE   | Central Bank of Ecuador                                     |
| CEMLA | Centre for Latin American Monetary Studies                  |
| CESI  | Committee on Environment and Social Impact                  |
| MIF   | Multilateral Investment Fund                                |
| OAFPM | Operations, administration, finance, and procurement manual |
| PCR   | Project completion report                                   |
| PEP   | Project execution plan                                      |
| PEU   | Project executing unit                                      |
| PPMR  | Project performance monitoring report                       |
| SNP   | Sistema Nacional de Pagos [National Payment System]         |

## ALTERNATIVE REMITTANCE DISTRIBUTION CHANNEL FOR SMALL ECUADORIAN FINANCIAL INTERMEDIARIES

(EC-M1022)

### EXECUTIVE SUMMARY

|  |  |  |              |                      |                    |              |       |               |                       |  |
|--|--|--|--------------|----------------------|--------------------|--------------|-------|---------------|-----------------------|--|
| <b>Executing agency:</b>                             | Central Bank of Ecuador (BCE)  |  |              |                      |                    |              |       |               |                       |  |
| <b>Beneficiaries:</b>                                | The primary beneficiaries will be recipients of migrant remittances, particularly in marginal and rural areas, as well as regulated and unregulated financial entities (credit unions).  |  |              |                      |                    |              |       |               |                       |  |
| <b>Objectives:</b>                                   | The general objective is to help bring remittance recipients, particularly those in marginal and rural areas, into the formal financial system through financial intermediaries offering quality remittance transfer services. The specific objective is to expand remittance distribution channels by integrating regulated and unregulated credit unions into the high-tech national payment system administered by the BCE. |  |              |                      |                    |              |       |               |                       |  |
| <b>Financing:</b>                                    | <table><tr><td>MIF (Window I)<sup>1</sup> nonreimbursable funds:</td><td>US\$ 725,500</td><td>(65%)<sup>2</sup></td></tr><tr><td>Local counterpart:</td><td>US\$ 378,000</td><td>(35%)</td></tr><tr><td><b>Total:</b></td><td><b>US\$ 1,103,500</b></td><td></td></tr></table>   | MIF (Window I) <sup>1</sup> nonreimbursable funds: | US\$ 725,500 | (65%) <sup>2</sup>   | Local counterpart: | US\$ 378,000 | (35%) | <b>Total:</b> | <b>US\$ 1,103,500</b> |  |
| MIF (Window I) <sup>1</sup> nonreimbursable funds:   | US\$ 725,500   | (65%) <sup>2</sup>                                 |              |                      |                    |              |       |               |                       |  |
| Local counterpart:                                   | US\$ 378,000   | (35%)  |              |                      |                    |              |       |               |                       |  |
| <b>Total:</b>  | <b>US\$ 1,103,500</b>  |  |              |                      |                    |              |       |               |                       |  |
| <b>Execution timetable:</b>                          | <table><tr><td>Execution period:</td><td>36 months</td></tr><tr><td>Disbursement period:</td><td>42 months</td></tr></table>   | Execution period:                                  | 36 months    | Disbursement period: | 42 months          |              |       |               |                       |  |
| Execution period:                                    | 36 months  |  |              |                      |                    |              |       |               |                       |  |
| Disbursement period:                                 | 42 months  |  |              |                      |                    |              |       |               |                       |  |
| <b>Exceptions to Bank policy:</b>                    | None.  |  |              |                      |                    |              |       |               |                       |  |
| <b>Coordination with other development agencies:</b> | No other official development finance institutions have similar assistance programs in the area.   |  |              |                      |                    |              |       |               |                       |  |

<sup>1</sup> The MIF contribution includes US\$25,000 for coordinating cluster activities.

<sup>2</sup> Excludes cluster activities.

**Special  
contractual  
clauses:****Conditions precedent to the first disbursement of Bank funds:**

(i) creation of the project executing unit and coordination committee; (ii) preparation of the project execution plan, the annual work plan, and the operations, administration, finance, and procurement manual in accordance with Bank policies; and (iii) delivery of 10 commitment letters, signed by the BCE and the credit unions, approving the budget contributions.

**Environmental  
and social  
impact:**

The Committee on Environment and Social Impact (CESI) reviewed the project abstract at its meeting of 3 November 2006. Responses to CESI's comments were incorporated into this document (paragraph 7.1).

## **I. BACKGROUND**

### **A. Remittances in Latin America and the Caribbean**

- 1.1 Migrant remittances represent an important source of financial flows into Latin America and the Caribbean. Total remittances reached US\$60 billion in 2006—a 12% increase over the preceding year.<sup>1</sup> This flow of funds, which already exceeds external assistance and foreign direct investment received by the region, is stable and generally behaves countercyclically with respect to the recipient country's economy. In addition, since remittances are spent mostly on consumption, the multiplier effect distributes their benefits throughout the formal and informal economies.
- 1.2 Remittances benefit various segments of the population, particularly low-income women, throughout the countries in the region. In addition to producing an economic and social impact with their remittances, diasporas serve as important agents of change and modernization in the emerging economies of their home countries. The challenges surrounding remittances are: (i) to increase recipients' financial resources by reducing average transaction costs; and (ii) to improve the development impact by channeling remittances through the financial system so as to foster recipients' financial inclusion and increase options for the productive use of remittance flows.

### **B. Remittances in Ecuador**

- 1.3 Following the 1998–1999 crisis and the ensuing decline in economic, employment, and social conditions, large numbers of unemployed and underemployed Ecuadorians decided to emigrate—primarily to Spain, the United States, and Italy—to find work and support their families by sending money home. Based on information from the Central Bank of Ecuador (BCE), migrant remittances grew nearly tenfold—from US\$200 million to US\$2.005 billion—from 1993 to 2005. Remittances average US\$175 per transfer and benefit close to one million Ecuadorians, or 14% of the adult population. Remittances represented 6.4% of Ecuador's gross domestic product in 2005, and were the second largest source of financial flows into the Ecuadorian economy after petroleum exports. Some 60% of remittances received in Ecuador are sent through remittance companies such as Delgado Travel and Western Union; 17% are transferred through formal financial institutions such as Banco del Pichincha, Banco Solidario, or Banco Bolivariano; and the remainder (23%, or approximately US\$460 million) arrive by mail, hand delivery, or other informal means.<sup>2</sup>

---

<sup>1</sup> <http://www.iadb.org/mif/v2/remittances.html>.

<sup>2</sup> A 2005 migration survey of the Azuay and Cañar provinces conducted by the BCE and Universidad de Cuenca showed that the factors most important to emigrants in sending money were ease of access (25%), security (21%), speed (17%), and cost (9%).



## **C. Issues**

- 1.4 According to research and the lessons learned from MIF projects, the remittance market in Ecuador is characterized, *inter alia*, by the following factors: (i) transfers are costly and slow; and (ii) access to formal banking channels is limited in rural areas, increasing costs, time, and risks.
- 1.5 A recent study of various financial institutions by the BCE found that the fees charged by remittance companies tend to be higher than those charged by banks. This is because remittance companies channel electronic transfers through national and international correspondent banks' systems. Those correspondent banks find it quite costly to work with small financial intermediaries, particularly if they are unregulated or located in geographically remote areas, so there would be no way to reduce transfer costs.
- 1.6 While remittances are largely transferred through remittance companies, most credit unions are widely distributed throughout the provinces and rural areas where a large percentage of emigrants' relatives are located. These credit unions, however, lack their own electronic transfer management systems. There are currently 433 credit unions in Ecuador: 39 are supervised by the Superintendencia de Bancos y Seguros [Superintendency of Banks and Insurance] and the other 394 (unregulated credit unions) come under the Ministry of Social Welfare's National Cooperatives Office. All of these credit unions, together with village banks and community savings banks, are currently providing microfinance intermediation.

## **D. Alternative solution**

- 1.7 Out of concern for this situation, the BCE has proposed incorporating these small, rurally located financial intermediaries into a high-technology interbank payment system, such as the Sistema Nacional de Pagos [National Payment System] (**SNP**), which would facilitate remittance transfers by reducing costs and transfer times and optimizing access to remittances in rural areas through the use of formal channels. This would, in turn, decrease the volume of flows through informal, risky channels and promote the recipients' inclusion in the formal financial system.
- 1.8 The **SNP** is a BCE service widely used in the Ecuadorian banking sector that allows customers of one financial institution to transfer funds electronically to customer accounts at another institution. Technically, the SNP is a clearing house for electronic fund transfers in which the participating institutions present the BCE with the payment orders that their customers have issued to the order of customers of other participating institutions so the accounts can be cleared and settled. The BCE acts as regulator, administrator, operator, and clearing agent for the system.
- 1.9 Unregulated credit unions do not maintain current accounts with the BCE and therefore cannot receive their customers' remittances directly from the SNP. To eliminate this obstacle, a mechanism has been proposed to bring unregulated credit

unions into the SNP via a regulated credit union (a “**network hub**”), subject to the agreement of the parties concerned.

- 1.10 In 2005, the BCE signed an agreement with the Caixa d'Estalvis i Pensions de Barcelona [Pension and Savings Bank of Barcelona] (La Caixa) establishing a correspondent relationship between the two entities. La Caixa would act as the originating entity for remittances and transfer orders to residents in Ecuador, and would make its extensive distribution network of 5,024 offices and 7,272 automated teller machines available to the BCE for this purpose.<sup>3</sup> Considering that remittance flows from Spain represent approximately 44% of all remittances arriving in Ecuador, this agreement will have greater significance if migrant remittances can be channeled through the SNP.
- 1.11 This proposal offers an alternative to the transfer systems provided today by major banks and remittance companies, which market conditions prevent from efficiently reaching the rural areas or provinces with the highest emigration rates. It will supplement those transfer systems, adding an element of competition by enhancing the geographic distribution of remittances, reducing waiting times for beneficiaries, and potentially lowering transaction costs. This will foster greater inclusion of a population group that is currently without access to traditional banking services.
- 1.12 The BCE's institutional mission is to deepen financial market development in Ecuador. Accordingly, its strategic interest lies in reaching and including all segments of the population in the formal financial system, particularly those residing in marginal and rural areas, which in fact produce the largest number of Ecuadorian emigrants. This is why it is prepared to take on the challenge of offering the SNP as an alternative channel, in cooperation with regulated and unregulated payment agents and financial operators. At the same time, its neutral position will enable it to coordinate the various entities involved in remittances under one single project.
- 1.13 The credit unions have expressed interest in joining the SNP in view of benefits such as: (i) faster receipt of remittances at lower cost, resulting in greater availability of funds for their customers; (ii) elimination of an intermediary (the banks currently serving as paying agents) that exposes the credit unions to competition by gaining access to their customers through remittances; (iii) the potential for improved technology, insofar as joining the SNP requires the credit unions to use certain technology; and (iv) the development of financial products for credit unions to offer their customers, made possible by recurring remittance flows.

---

<sup>3</sup> Remittances received through the SNP would be credited only to an end beneficiary's checking or savings account, and would be available to the beneficiary under the terms and conditions established by the receiving financial institution. As the agreement does not provide exclusivity for any of the parties, the BCE may sign similar agreements with other financial institutions in Spain or any other country.

## **E. Rationale**

- 1.14 The most important **value added** contributed by the MIF would go beyond the mere reduction of remittance costs and times, as improvement of remittance services would promote: (i) broader, more inclusive financial services; (ii) competitive, efficient financial services; and (iii) stable, effective financial systems. Given its innovative approach to a shared problem, the project also has great potential for replicability in other Latin American and Caribbean countries that receive remittances.
- 1.15 The project is also fully consistent with the **Bank's strategy with Ecuador** in the area of financial markets, which makes it a priority to ensure that marginalized groups are served by the country's financial system and that barriers to the development of banking activities are systematically eliminated.
- 1.16 The proposed project will complement other MIF projects, particularly the project being executed by the Centre for Latin American Monetary Studies (CEMLA) (ATN/MT-9182-RG), given that it will help the region's central banks to improve procedures and collect statistical data relating to remittance transfers. This project will also complement several other MIF initiatives in Ecuador promoting institution-strengthening and the development of new services offered by regulated and unregulated financial institutions. The project is therefore in line with the objectives of the "Remittances as a Development Tool" cluster (document MIF/GN-73).

## **II. PROGRAM OBJECTIVES AND COMPONENTS**

### **A. Objectives**

- 2.1 The general objective of the project is to help bring remittance recipients, particularly those in Ecuador's marginal and rural areas, into the formal financial system through small financial intermediaries offering quality remittance transfer services. The specific objective is to expand remittance distribution channels by integrating both regulated and unregulated credit unions into a high-tech payment system administered by the BCE. As recipients are brought into the formal financial system by receiving their remittances through the credit unions, those institutions will be in a position to offer them other savings and loan financial services, and to have the resources be invested in productive sectors.

### **B. Components and activities**

- 2.2 To achieve the above, three components will be carried out to: (i) prepare and train the credit unions that will join the local remittance networks; (ii) establish connectivity between credit unions and the SNP; and (iii) evaluate and disseminate outcomes.

**1. Component 1: Preparation and training of the credit unions to join the remittance networks (MIF: US\$446,750; counterpart: US\$91,000)**

- 2.3 Identify and train regulated and unregulated credit unions in the areas receiving the largest proportion of remittances so that they are fully aware of the advantages of integrating with the SNP as an alternative remittance channel, thereby enhancing access to formal financial circuits for marginal and rural areas.
- 2.4 The activities will consist of: (i) developing a national map showing the location of regulated credit unions, their branch offices, and the main unregulated entities involved in distributing remittances; (ii) developing criteria and standards (financial performance, compliance with prudential standards, and technology and connectivity requirements) for selecting regulated credit unions to make up the local networks and to serve as “network hubs” and for selecting unregulated credit unions; and (iii) holding 30 workshops to provide detailed technical information on the SNP and to identify potential participating credit unions.
- 2.5 During the process of establishing the local networks, this component will finance activities to validate the regulated and unregulated credit unions’ connections and to evaluate existing accounting systems, particularly those of unregulated credit unions, ensuring that the chart of accounts meets the standards of the Superintendency of Banks and Insurance. Software will be provided and a curriculum of accounting courses for these entities will be developed.
- 2.6 In addition, a marketing plan will be developed and implemented to acquaint customers of entities participating in the local networks (i.e., emigrants’ relatives) with the advantages of using regulated and unregulated financial entities to send and receive remittances. Marketing plans will also be implemented in those countries where emigrants live, beginning first with Spain and then with Italy, as these countries currently host a significant percentage of Ecuadorian emigrants. Through these activities, remittance recipients will become new credit union clients, generating a critical mass for developing other financial products.
- 2.7 This component will result in 10 regulated credit unions’ being identified and prepared as the “network hubs” and 30 unregulated credit unions’ joining the networks and operating through the SNP. Moreover, based on the demand study, the participating credit unions will develop financial products around the regular flow of remittances, such as education savings plans, microcredits for starting businesses, and home mortgage and renovation loans, and thereby increase the number of customers in the formal financial system. In addition, the participating credit unions will have improved their accounting systems through the use of modern software.

**2. Component 2: Connection of remittance networks to the SNP (MIF: US\$107,100; counterpart: US\$165,600)**

- 2.8 Carry out information systems development and to implement the network connection, to be coordinated by the BCE and executed by the participating credit

unions. Three activities will be financed: (i) connection of the “network hubs” identified in component I and their training in use of the SNP; (ii) practical training of regulated credit union officers in providing remittance transfer services to unregulated credit unions using the high-technology platform; and (iii) development of manuals and practical training for the unregulated credit unions on the use of the transaction systems.

- 2.9 As a result of this component, 10 regulated and 30 unregulated credit unions will have begun operating with full access to the faster, safer, and more efficient local electronic transfer networks. The project will also finance the development of mechanisms to measure qualitative and quantitative impacts and outcomes, which will enable the Bank to fine-tune future projects.

**3. Component 3: Evaluation and dissemination of outcomes  
(MIF: US\$34,500; counterpart: US\$21,000)**

- 2.10 Ensure the networks’ structural sustainability and disseminate the remittance transaction mechanisms and available financial products. The following activities are planned: (i) evaluation of the impact of training programs and execution in order to design and implement the mechanisms needed to ensure their sustainability; (ii) media advertising of available remittance-related financial products; (iii) development of a page on the BCE’s website to post current fees for transactions made through the different formal channels in operation; and (iv) creation of a “technical forum” to coordinate input, studies, data collection, and other analyses with the various stakeholders in order to measure and calculate the scope and impacts of adopted measures and make policy recommendations to the government to improve them.
- 2.11 Two workshops will be organized to disseminate lessons learned from the project throughout Latin America and the Caribbean. At least six central banks from the region are expected to participate in the workshops. A closing workshop will also be held.

### **III. COST AND FINANCING**

- 3.1 The estimated total project cost is US\$1,029,560, of which the MIF will contribute US\$688,400 in nonreimbursable funds from the Technical Cooperation Facility (Facility I), and the executing agency will contribute the remaining US\$341,160, which includes a contribution of US\$82,760 from the participating regulated and unregulated credit unions. The cash contribution from the local counterpart will be US\$215,760. Overall figures are presented below. More detailed information is available in Annex II.

| (US\$)                                     |                  |                   |                    |
|--|------------------|-------------------|--------------------|
| Components                                 | MIF              | Local counterpart | Total              |
| Component 1                                | 446,750          | 91,000            | 537,750            |
| Component 2                                | 107,100          | 165,600           | 272,700            |
| Component 3                                | 34,500           | 21,000            | 55,500             |
| Administration                             | 90,000           | 97,400            | 187,400            |
| Evaluations                                | 7,000            | 0                 | 7,000              |
| Audit                                      | 0                | 3,000             | 3,000              |
| Contingencies                              | 15,150           | 0                 | 15,150             |
| <b>Subtotal</b>                            | <b>\$700,500</b> | <b>\$378,000</b>  | <b>\$1,078,500</b> |
| Cluster activities <sup>4</sup>            | 25,000           |                   | 25,000             |
| <b>Grand total</b>                         | <b>\$725,500</b> | <b>\$378,000</b>  | <b>1,103,500</b>   |
| Percentages (excluding cluster activities) | <b>65%</b>       | <b>35%</b>        |                    |

#### IV. EXECUTING AGENCY AND EXECUTION MECHANISM

- 4.1 The project will be executed by the Central Bank of Ecuador (BCE). The BCE was established in 1927 and currently develops guidelines and pursues measures relating to the country's financial and credit policies. The BCE is focused on developing an institutional framework to address issues relating to the liquidity, systemic risk, and competitiveness of the financial sector. It is also tasked with improving access to financing for the productive sector and stabilizing and deepening the payment system. In the context of these economic policy guidelines and objectives, the BCE has cooperated in recent decades with various multilateral lending institutions such as the International Monetary Fund, the World Bank, and the Andean Development Corporation in supporting activities relating to public finance and the deepening of capital markets.
- 4.2 As part of its constitutional functions, the BCE also facilitates financial intermediation in Ecuador and abroad through the SNP, the various foreign correspondent banks, and other services. The SNP is intended to be a system allowing customers of one financial institution or a remittance company to transfer funds electronically, in real time, to customers of other financial entities in Ecuador. The BCE acts as regulator, administrator, operator, and clearing agent for the SNP.
- 4.3 **Execution mechanism.** A project executing unit (PEU) will be established within the BCE to conduct the procurement processes required in connection with the cooperation program and to prepare the accounting reports. A coordination

<sup>4</sup> This amount will be deducted from the total MIF contribution when the agreement is signed, and will be used by the Bank for cluster coordination activities.

committee will be formed by the BCE and representatives of the participating credit unions to ensure smooth, transparent execution of the project. The committee's main functions will be: (a) developing strategies, policies, and directives to achieve project objectives; (b) annually approving the project execution plan (PEP) and annual work plan (AWP); (c) evaluating progress on project components; and (d) other functions specified in the operations, administration, finance, and procurement manual (OAFPM).

- 4.4 **Execution period.** The project execution period will be 36 months, and the disbursement period will be 42 months. The Bank will set up a revolving fund for a maximum of 10% of the MIF contribution, which will be managed in a separate account from the total approved amount and local contribution.
- 4.5 **Procurement of goods and consulting services.** The Bank will review the selection and hiring process for contracts under US\$50,000 on an ex post basis, except in the case of the first three procurements, which will be reviewed ex ante. The procedures must ensure transparent, competitive processes and the lowest costs. Shopping will be the method used for procuring goods.
- 4.6 **Project readiness.** The project objectives, components, and activities have been agreed on. In addition, the terms of reference for the PEU staff have been approved and the procurement plan has been prepared.

## V. MONITORING AND EVALUATION

- 5.1 **Evaluation.** The Bank's Country Office in Ecuador will be responsible for supervision and control and for monitoring contractual compliance, processing disbursement requests, and receiving the audited financial statements. The PEU will submit semiannual reports in accordance with the Bank's standard reporting requirements. The closing workshop will be scheduled to evaluate outcomes and actions required to enhance the project's impact.
- 5.2 An audit will be conducted at the end of the project. At the beginning of the project, the Bank, in cooperation with the PEU and the coordination committee, will hire an expert to conduct evaluations and develop the baseline indicators and system for monitoring project outcomes; this consultant will also participate in the closing workshop. Two evaluations will be conducted: the first when 50% of funds have been disbursed, and the second two months prior to the end of project execution.

## VI. BENEFITS AND RISKS

### A. Benefits

- 6.1 This operation draws directly on the importance of public-private partnership in the sector, using market mechanisms as the basis for enhancing and improving the efficiency of remittance flows. The creation of a high-technology payment system for regulated and unregulated financial entities will not only enhance geographic distribution of remittance receipts, particularly in marginal and rural areas, but will

also reduce the volume of remittances sent through informal channels. This will promote financial inclusion of small financial entities, and will help combat money laundering by transferring remittance flows through formal channels subject to Ecuadorian regulatory provisions. It is also expected that the systematized model resulting from the project will be replicated in other countries.

- 6.2 The project will directly benefit remittance recipients, particularly those residing in marginal and rural areas, and regulated and unregulated credit unions. The BCE will also benefit, because the electronic channel will enhance the system that captures statistics on migrant remittances from abroad. The project will indirectly benefit the Superintendency of Banks and Insurance to the extent that the electronic remittance distribution channel will help strengthen mechanisms to control money laundering.
- 6.3 **Sustainability** Project sustainability will be ensured by the quality of remittance distribution services, which will attract growing demand from existing and new credit-union members as well as from senders of remittances.

#### **B. Risks**

- 6.4 One potential risk is that the volume of remittances will be insufficient to motivate credit unions in rural areas to develop related financial products enabling them to harmonize investments in technology and personnel required for their incorporation into the SNP. This would discourage credit unions with lower anticipated flows from participating in the electronic channel, reducing the extent of recipients' integration into the formal system. To mitigate this risk, the project includes extensive marketing and training activities to encourage the credit unions to join the networks. In any event, the first disbursement will be conditioned on the receipt of at least 10 commitment letters signed by the BCE and the credit unions having expressed general interest in participating in the project and contributing to the counterpart funding.
- 6.5 Once the La Caixa agreement is implemented, the BCE plans to begin using the SNP for remittances from Spain. The SNP will be less effective if there are no agreements with financial institutions in other host countries of Ecuadorian emigrants; accordingly, the BCE is considering a similar agreement with Italian institutions that could potentially be formalized in 2007. To approach the Italian market, the project includes a marketing plan targeting emigrants in Italy, and it will be able to use such opportunities to identify institutions interested in serving as originators.

### **VII. ENVIRONMENTAL AND SOCIAL REVIEW**

- 7.1 Given the nature of the project, no direct adverse social or environmental impacts are anticipated. Positive effects are that the project will particularly benefit socially disadvantaged groups, such as the women and rural inhabitants who receive the majority of remittances.



## ALTERNATIVE REMITTANCE DISTRIBUTION CHANNEL FOR SMALL ECUADORIAN FINANCIAL INTERMEDIARIES

### LOGICAL FRAMEWORK

| Narrative summary  | Indicators  | Means of verification   | Assumptions  |
|--|---|---|--|
| <b>Goal</b>  |   |   |  |
| To help bring unbanked remittance recipients into the formal financial system.                   | <b>Three years after project completion:</b> <ul style="list-style-type: none"> <li>30% increase in remittances received through formal channels.</li> </ul>  | <ul style="list-style-type: none"> <li>Statistical data from government organizations</li> </ul>  | <ul style="list-style-type: none"> <li>Remittance transfers are not adversely affected by the macroeconomic and political situation.</li> </ul>  |
| <b>Purpose</b>   |   |   |  |
| To expand formal remittance distribution channels to marginal and rural areas.                   | <b>At the end of project execution:</b> <ul style="list-style-type: none"> <li>At least 10 regulated and 30 unregulated credit unions use the Central Bank of Ecuador (BCE) National Payment System (SNP).</li> <li>20% increase in the number of new remittance recipients in regulated and unregulated credit unions benefiting from the SNP.<sup>1</sup></li> <li>20% increase in the number of new bank accounts for remittance transfers in regulated and unregulated credit unions.<sup>1</sup></li> <li>20% increase in remittances received in rural areas of Ecuador through the SNP.<sup>1</sup></li> </ul> | <ul style="list-style-type: none"> <li>Baseline</li> <li>Semiannual and final project reports</li> <li>Midterm and final evaluation by outside consultant</li> <li>On-site verification and interviews with credit union officers</li> <li>Project completion report (PCR)</li> <li>Project performance monitoring report (PPMR)</li> </ul> | <ul style="list-style-type: none"> <li>The credit unions are motivated to offer financial services to encourage remittance recipients to open accounts.</li> <li>The BCE concludes cooperative agreements with financial institutions in Italy to facilitate transfer of remittances by Ecuadorian emigrants.</li> </ul> |
| <b>Components</b>  |   |   |  |
| <b>Component 1</b><br>Preparation and training of credit unions to join the remittance networks. | <b>30 months into the project:</b> <ul style="list-style-type: none"> <li>At least 10 regulated and 30 unregulated credit unions trained in SNP operations, enabling them to access local electronic transfer networks, and operating through the SNP.</li> </ul>   | <ul style="list-style-type: none"> <li>Semiannual and final project reports</li> <li>Midterm and final evaluation by outside consultant</li> </ul>  | <ul style="list-style-type: none"> <li>There is sufficient response to the marketing plan.</li> </ul>  |

<sup>1</sup> To be redefined according to the baseline.

| Narrative summary   | Indicators   | Means of verification   | Assumptions  |
|---|--|---|--|
|   | <ul style="list-style-type: none"> <li>At least one new financial product developed and implemented by the credit unions.</li> </ul>   | <ul style="list-style-type: none"> <li>On-site verification and interviews with credit union officers</li> <li>PCR</li> <li>PPMR</li> </ul>   | <ul style="list-style-type: none"> <li>There are adequate accounting systems or other alternatives available on the market that comply with the Superintendency of Banks and Insurance chart of accounts.</li> </ul> |
| <b>Component 2</b><br>Connection of remittance networks to the SNP.   | <b>24 months into the project:</b> <ul style="list-style-type: none"> <li>Connectivity service for channeling remittances in place in at least 10 regulated and 30 unregulated credit unions.</li> </ul>   |   | <ul style="list-style-type: none"> <li>Participating credit unions are willing and able to pay the costs of system implementation.</li> </ul>  |
| <b>Component 3</b><br>Evaluation and dissemination of outcomes.   | <b>24 months into the project:</b> <ul style="list-style-type: none"> <li>At least two policy recommendations developed by the technical forum and submitted to the government to improve the remittance distribution and utilization system.</li> </ul> <b>36 months into the project:</b> <ul style="list-style-type: none"> <li>At least two workshops held to disseminate project outcomes to at least six of the region's central banks.</li> </ul>   |   | <ul style="list-style-type: none"> <li>Stakeholders are interested in participating in the technical forum.</li> </ul>   |
| <b>Component 1: Preparation and training of credit unions to form the remittance network (MIF: US\$446,750 / counterpart: US\$91,000)</b>   |  |   |  |
| Activities  | Indicators   | Means of verification   | Assumptions  |
| <ul style="list-style-type: none"> <li>Design and development of a national map and identification of criteria and standards for integration.</li> <li>Organization of information workshops.</li> <li>Validation of system connections.</li> <li>Evaluation of accounting systems.</li> <li>Development of applied accounting curriculum.</li> <li>Implementation of accounting software.</li> </ul> | <b>Six months into the project:</b> <ul style="list-style-type: none"> <li>National map and minimum integration criteria and standards developed.</li> <li>Marketing plan for migrants' host countries and for the service areas of participating credit unions designed and being implemented.</li> </ul> <b>18 months into the project:</b> <ul style="list-style-type: none"> <li>At least 20 one-day workshops held to provide detailed information on the SNP to regulated and unregulated credit unions.</li> <li>Connections to regulated and unregulated credit unions' systems validated.</li> <li>Accounting systems evaluated.</li> </ul> | <ul style="list-style-type: none"> <li>Consulting contracts</li> <li>Consultant's reports</li> <li>Semiannual and final project reports</li> <li>Midterm and final evaluation by outside consultant</li> <li>On-site verification and interviews with credit union officers</li> <li>PCR</li> <li>PPMR</li> </ul> | <ul style="list-style-type: none"> <li>Demand exists among regulated and unregulated credit unions, and they meet the minimum selection and membership criteria.</li> </ul>  |

| Narrative summary   | Indicators  | Means of verification   | Assumptions  |
|---|---|---|--|
| <ul style="list-style-type: none"> <li>Development of marketing plan.</li> <li>Studies conducted regarding demand for new products.</li> </ul>  | <ul style="list-style-type: none"> <li>Applied accounting curriculum developed for unregulated credit unions.</li> <li>Accounting software developed and implemented in at least 20 unregulated credit unions.</li> </ul> <p><b>24 months into the project:</b></p> <ul style="list-style-type: none"> <li>At least 30 unregulated credit unions trained in the use of basic accounting systems.</li> </ul>   |   |  |
| <b>Component 2: Connection of remittance networks to the SNP (MIF: US\$70,260 / counterpart: US\$128,760)</b>   |   |   |  |
| Activities  | Indicators  | Means of verification   | Assumptions  |
| <ul style="list-style-type: none"> <li>Installation of computer equipment.</li> <li>Installation of connectivity service.</li> <li>Development of communications software.</li> <li>Development of an operations manual for SNP transactions.</li> <li>Practical training of credit unions on the SNP.</li> </ul> | <ul style="list-style-type: none"> <li>Computer equipment installed in 10 regulated and 30 unregulated credit unions.</li> <li>Software for connection between regulated credit unions (network hubs) and unregulated credit unions (30) developed and implemented.</li> <li>Credit union officers trained in software management.</li> <li>At least one operations manual developed on SNP transactions as regards relationships between the regulated and unregulated credit unions.</li> </ul>   | <ul style="list-style-type: none"> <li>Consulting contracts</li> <li>Consultant's reports</li> <li>Semiannual and final project reports</li> <li>Midterm and final evaluation by outside consultant</li> <li>On-site verification and interviews with credit union officers</li> <li>PCR</li> <li>PPMR</li> </ul> | <ul style="list-style-type: none"> <li>Connectivity service is available at locations where the regulated and unregulated credit unions operate.</li> <li>Customers of regulated and unregulated credit unions prefer to receive remittances through credit unions working with the SNP in light of reduced costs and transfer times.</li> </ul> |
| <b>Component 3: Evaluation and dissemination of outcomes (MIF: US\$34,500 / counterpart: US\$21,000)</b>  |   |   |  |
| Activities  | Indicators  | Means of verification   | Assumptions  |
| <ul style="list-style-type: none"> <li>Completion of baseline and monitoring analyses.</li> <li>Organization of technical forum.</li> <li>Activation of web page on BCE website.</li> <li>Development of policy proposals.</li> <li>Organization of dissemination workshops.</li> </ul>                           | <p><b>Six months into the project:</b></p> <ul style="list-style-type: none"> <li>Baseline and baseline monitoring system implemented.</li> <li>Web page developed on the BCE's website to post current fees for transactions executed through the different formal channels operating in Ecuador.</li> <li>Technical forum established to coordinate among the various remittance stakeholders.</li> </ul> <p><b>18 months into the project:</b></p> <ul style="list-style-type: none"> <li>At least six technical-forum meetings organized and held.</li> </ul> | <ul style="list-style-type: none"> <li>Consulting contracts</li> <li>Consultant's reports</li> <li>Semiannual and final project reports</li> <li>On-site verification and interviews with credit union officers</li> <li>PCR</li> <li>PPMR</li> </ul>   | <ul style="list-style-type: none"> <li>The participating stakeholders express interest in the remittance distribution and utilization system.</li> </ul>   |

| Narrative summary | Indicators   | Means of verification | Assumptions |
|-------------------|--|-----------------------|-------------|
|                   | <b>36 months into the project:</b> <ul style="list-style-type: none"><li>At least two dissemination workshops organized and held to share project outcomes with other central banks in the region.</li></ul> |                       |             |

## ALTERNATIVE REMITTANCE DISTRIBUTION CHANNEL FOR SMALL ECUADORIAN FINANCIAL INTERMEDIARIES

(EC-M1022)

| Components  | MIF     | LOCAL CONTRIBUTION (IN CASH) |                       | LOCAL CONTRIBUTION (IN KIND) |                       | TOTAL COST |
|---|---------|------------------------------|-----------------------|------------------------------|-----------------------|------------|
|   |         | BCE                          | Project credit unions | BCE                          | Project credit unions |            |
| <b>Component 1: Creation and training of remittance networks</b>  |         |                              |                       |                              |                       |            |
| 1.1 Consultancy to map credit unions and identify minimum criteria for network creation                                   | 11,250  | 0                            | 0                     | 0                            | 0                     | 11,250     |
| 1.2 Consultancy for 30 workshops providing detailed information on the SNP  | 8,000   | 13,000                       | 0                     | 0                            | 0                     | 21,000     |
| 1.3 Consulting firm with international experience for design and execution of the marketing plan                          | 140,500 | 30,000                       | 0                     | 0                            | 0                     | 170,500    |
| 1.4 Consultancy to validate connectivity with regulated and unregulated credit unions' systems                            | 8,000   | 0                            | 0                     | 0                            | 0                     | 8,000      |
| 1.5 Consultancy to evaluate existing accounting systems or other alternatives and prepare training and curriculum         | 174,000 | 0                            | 48,000                | 0                            | 0                     | 222,000    |
| 1.6 Consultancy for demand study, development of new financial/remittance products, dissemination and implementation plan | 105,000 | 0                            | 0                     | 0                            | 0                     | 105,000    |
| <b>Component 2: Connection of small financial intermediaries to the National Payment System (SNP)</b>                     |         |                              |                       |                              |                       |            |
| 2.1 Computer equipment required for system operation  | 24,000  | 0                            | 24,000                | 0                            | 0                     | 48,000     |
| 2.2 Implementation of network connections   | 51,100  | 0                            | 39,600                | 70,000                       | 0                     | 160,700    |
| 2.3 Software for connection between network hubs and unregulated credit unions; operations manual for SNP transactions    | 32,000  | 0                            | 0                     | 0                            | 8,000                 | 40,000     |
| 2.4 Training in SNP operation   | 0       | 12,000                       | 0                     | 12,000                       | 0                     | 24,000     |
| <b>Component 3: Evaluation and dissemination of outcomes</b>  |         |                              |                       |                              |                       |            |
| 3.1 Baseline analysis and monitoring system   | 6,000   | 0                            | 0                     | 0                            | 0                     | 6,000      |
| 3.2 Data collection and processing and design of electronic portal on BCE website   | 10,500  | 0                            | 0                     | 15,000                       | 0                     | 25,500     |
| 3.3 Workshops for dissemination of project outcomes   | 0       | 4,000                        | 0                     | 2,000                        | 0                     | 6,000      |
| 3.4 Consultancy to conduct two studies of proposed remittance policies (technical forum)                                  | 18,000  | 0                            | 0                     | 0                            | 0                     | 18,000     |
| <b>General administration</b>   | 90,000  | 79,400                       | 0                     | 18,000                       | 0                     | 187,400    |
| <b>Evaluation</b>   | 7,000   | 0                            | 0                     | 0                            | 0                     | 7,000      |
| <b>Financial audits</b>   | 0       | 3,000                        | 0                     | 0                            | 0                     | 3,000      |

| Components         | MIF     | LOCAL CONTRIBUTION (IN CASH) |                       | LOCAL CONTRIBUTION (IN KIND) |                       | TOTAL COST |
|--------------------|---------|------------------------------|-----------------------|------------------------------|-----------------------|------------|
|                    |         | BCE                          | Project credit unions | BCE                          | Project credit unions |            |
| Contingencies      | 15,150  | 0                            | 0                     | 0                            | 0                     | 15,150     |
| Subtotal           | 700,500 | 141,400                      | 111,600               | 117,000                      | 8,000                 | 1,078,500  |
| Cluster activities | 25,000  |                              |                       |                              |                       |            |
| Grand total        | 725,500 |                              | 378,000               |                              |                       | 1,103,500  |

### Projects in the remittances cluster

| Project number and date of approval | Project title, executing agency, and amount   | Date of signature and disbursement period | Disbursement (%) | Comments   |
|-------------------------------------|---|---|------------------|--|
| EQU/MS-7425-BR<br>16 May 2001       | <b>Equity investment in the Venture Capital Fund for Returning Entrepreneurs</b><br>Banco Sudameris de Inversión<br>US\$5 million   | 28 January 2002<br>40 months              | 87.47%           | The project is proceeding satisfactorily.  |
| ATN/ME-7599-EC<br>19 September 2001 | <b>Program to support microenterprises and Ecuadorian migrants</b><br>Banco Solidario<br>US\$200,000  | 16 November 2001<br>43 months             | 100%             | All proposed targets were surpassed.   |
| ATN/MT-7792-ME<br>20 February 2002  | <b>Strengthening institutions in the low-income savings and loan sector</b><br>Banco del Ahorro Nacional y Servicios Financieros (BANSEFI)<br>US\$3.5 million               | 22 February 2002<br>42 months             | 94.87%           | The project is proceeding satisfactorily and has fulfilled its objectives.   |
| ATN/ME-7717<br>12 December 2001     | <b>Capitalization of remittances for local economic development</b><br>Nacional Financiera<br>US\$1,115,000   | 12 June 2002<br>36 months                 | 77.98%           | The project is proceeding satisfactorily. The executing unit is functioning adequately.                              |
| ATN/ME-7834-ME<br>4 April 2002      | <b>Pilot program for the investment of remittances for rural development in migrants' home economies</b><br>Fundación para la Productividad en el Campo A.C.<br>US\$460,000 | 24 June 2002<br>36 months                 | 86.80%           | The executing agency has made headway in fulfilling the components, and achieving the expected outcomes is feasible. |
| 64/MS-DR<br>30 April 2003           | <b>Improving remittance distribution channels</b><br>Banco BHD<br>US\$2.5 million   | 14 June 2005<br>18 months                 | 60.00%           | The project is proceeding satisfactorily.  |

| <b>Project number and date of approval</b> | <b>Project title, executing agency, and amount</b>   | <b>Date of signature and disbursement period</b> | <b>Disbursement (%)</b> | <b>Comments</b>   |
|--|--|--|-------------------------|---|
| ATN/ME-7886-ES<br>29 May 2002              | <b>Strengthening of financial and family remittances services for low-income groups</b><br>Federación de Asociaciones de Cooperativas de Ahorro y Crédito (FEDECACES)<br>US\$1.5 million | 16 July 2002<br>42 months                        | 68.42 %                 | The project is proceeding satisfactorily.   |
| ATN/ME-8455-DR<br>1 October 2003           | <b>Development of financial and business services for remittance recipients</b><br>Asociación de Instituciones Rurales de Ahorro y Crédito (AIRAC)<br>US\$840,000                        | 28 November 2003<br>48 months                    | 24.18%                  | The project is operating adequately, albeit somewhat slowly.  |
| ATN/ME-8379-NI<br>30 July 2003             | <b>Financiera Nicaragüense de Desarrollo, Sociedad Anónima (FINDESA)</b><br>FINDESA<br>US\$250,000   | 30 March 2004<br>48 months                       | 61.60%                  | The investment has been made satisfactorily. The technical assistance and loan are being administered satisfactorily. |
| ATN/ME-8510-AR<br>19 November 2003         | <b>Expansion and strengthening of FIE Gran Poder S.A., a microfinance institution</b><br>FIE Gran Poder<br>\$390,640   | 27 March 2004<br>36 months                       | 59.21%                  | The technical assistance and loan are being administered satisfactorily.  |
| ATN/ME-8674-PE<br>7 April 2004             | <b>Returning entrepreneurs support program</b><br>Asociación Peruano-Japonesa<br>US\$500,000   | 13 May 2004<br>42 months                         | 17.94%                  | The project has been delayed so the executing unit can fulfill all the necessary conditions.                          |
| ATN/ME-8655-RG<br>10 March 2004            | <b>Establishment of the MIF-IFAD Partnership Facility for Rural Private Sector Development</b><br>Eligible executing agencies<br>US\$4 million   | N/A  |                         | The first round of calls for proposals has been conducted, and there is a US\$3 million project portfolio.            |
| ATN/ME-8695-RG<br>28 April 2004            | <b>Mobilization of remittances through microfinance institutions</b><br>Fundación Centro Acción Microempresarial<br>US\$824,770  | 23 July 2004<br>48 months                        | 39.86%                  | The project is proceeding satisfactorily.   |



| <b>Project number and date of approval</b> | <b>Project title, executing agency, and amount</b>  | <b>Date of signature and disbursement period</b> | <b>Disbursement (%)</b> | <b>Comments</b>  |
|--|---|--|-------------------------|--|
| 79/MS-PE<br>17 November 2004               | <b>Increasing the development impact of worker remittances</b><br>Banco del Trabajo<br>US\$7.2 million  | 30 June 2005<br>36 months                        | 50.00%                  | The loan (US\$7 million) was disbursed in full. The technical cooperation component (US\$200,000) is operating adequately.                   |
| 80/MS-PE<br>17 November 2004               | <b>Mi Casita – the first full-service mortgage finance company in Peru</b><br>Mi Casita<br>US\$70,000   | N/A  | 0.00%                   | The project, which involves both a loan and an investment, is in the process of being signed. There is US\$70,000 for technical cooperation. |
| ATN/ME-8897-RG<br>13 October 2004          | <b>Micro and small enterprise financing through formal financial institutions in Latin America</b><br>ProCredit (ES), ProCredit (NI), Sociedad Financiera Ecuatorial (EC), Caja Los Andes (BO)<br>US\$166,000 | 30 May 2005<br>36 months                         | 47.78%                  | The project is operating adequately.   |
| ATN/MT-9138-ME<br>23 March 2005            | <b>Facilitation of access to housing finance for recipients of remittances</b><br>Sociedad Hipotecaria Federal (SHF)<br>US\$1.7 million   | 14 November 2005<br>48 months                    | 0.00%                   | There was a delay, due to a change in one of the coexecuting agencies. The project is in the process of fulfilling the conditions precedent. |
| ATN/MT-9182-RG<br>27 April 2005            | <b>Improving central bank remittance reporting and procedures</b><br>Center for Latin American Monetary Studies (CEMLA)<br>US\$2,029,796  | 7 July 2005<br>48 months                         | 23.27%                  | The project is proceeding satisfactorily.  |
| 98/MS-ME<br>26 October 2005                | <b>Pilot project to direct savings by Mexicans living in the USA toward the purchase of housing in Mexico</b><br>Hipotecaria Su Casita<br>US\$5 million   | N/A  | 0.00%                   | The project is in the process of being signed  |
| ATN/ME-9732-RG<br>22 March 2006            | <b>Promoting diaspora and local support for productive initiatives</b><br>Hispanics in Philanthropy<br>US\$3,285,000  | 12 July 2006<br>60 months                        | 10.00%                  | The project is in its initial stage.   |

| <b>Project number and date of approval</b> | <b>Project title, executing agency, and amount</b>  | <b>Date of signature and disbursement period</b> | <b>Disbursement (%)</b> | <b>Comments</b>   |
|--|---|--|-------------------------|---|
| ATN/ME-9940-RG<br>2 August 2006            | <b>Application of general principles for remittance markets</b><br>Center for Latin American Monetary Studies (CEMLA)<br>US\$1,759,300                          | 23 October 2006<br>60 months                     | 0.00%                   | The project is in the process of fulfilling the conditions precedent. |
| 110/MS-ES<br>15 December 2006              | <b>Pilot project to create a housing finance market for transnational families between the United States and El Salvador</b><br>Banco Agrícola<br>US\$5 million | N/A  | 0.00%                   | The project is in the process of being signed.                        |

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND

PROPOSED RESOLUTION MIF/DE-\_\_\_/07

Ecuador. Nonreimbursable Technical Cooperation ATN/MT-\_\_\_\_-EC  
Alternative Remittances Distribution Channel for Small Ecuadorian  
Financial Intermediaries

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 Central Bank of Ecuador, 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 technical cooperation for alternative remittances distribution channel for small Ecuadorian financial intermediaries

2. That up to the amount of US\$725,500 or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to the 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.

LEGIII/EC-927650-07  
EC-M1022