

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

**MULTILATERAL INVESTMENT FUND (MIF)
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD)**

I. BASIC PROJECT INFORMATION

Country:	Bolivia
Project title/number:	Development of services to improve remittance access and management (BO-M1006)
Project team:	Manuel Orozco, MIF/IFAD Program Coordinator; María Victoria Sáenz (MIF/OPS); Yadira Dennis (MIF/OPS); Pedro de Vasconcelos (MIF/PPU); Fernando Catalano (COF/CBO); Valentina Sequi (MIF/INV); María Elena Nawar (MIF/DEU); Cristina Price (LEG/OPS); and Michelle Lapointe (consultant).
Date of request:	January 2005
Executing agency:	Fondo Financiero Privado PRODEM S.A.
Beneficiaries:	4,200 low-income rural families. At least 40% of these beneficiaries will be women.
Financing:	MIF program (V-III): US\$291,610 IFAD: US\$120,000 Counterpart: US\$280,390 Total: US\$692,000

II. PROJECT ELIGIBILITY

- 2.1 The proposed project is considered eligible for MIF financing under the Small Enterprise Development Facility as part of the line of activity for the “MIF-IFAD Partnership Facility for Rural Private Sector Development” (MIF/GN-91), given that it is designed to promote rural economic and financial development through the participation of low-income migrant communities who are also remittance recipients.
- 2.2 It is also eligible under Component II, “Individual Projects,” in that it proposes specific actions directly related to bringing the unbanked into the formal financial system and to providing the financial education to ensure that remittances are invested in rural production-oriented projects.

III. BACKGROUND AND DEFINITION OF THE PROBLEM

- 3.1 Bolivia's economy has contracted and unemployment rates have risen in recent years. In search of better conditions, many low-income Bolivians have chosen to emigrate, principally to the United States, and the greater Washington D.C. area in particular. These emigrants have become an essential source of support for many families, especially in rural areas. Currently, 81% of the more than US\$500 million that Bolivia receives in remittances come from the United States, followed by Spain and Argentina. Remittances represented 4.3% of GDP in December 2003,¹ and 1% of all remittances sent to Latin America.
- 3.2 Over 58% of the remittances received from abroad are destined for rural areas, with the central and southern parts of the country receiving the greatest volume. They are an important source of income for many families of limited means. Fondo Financiero Privado PRODEM S.A. (FFP PRODEM S.A.) is the most viable alternative, since it is the financial institution most active in rural areas.
- 3.3 The first step of FFP PRODEM S.A., which has been operating in this market, was to become an agent for DHL. As such, its function is limited to delivering and sending money using software previously put in place by Western Union. The database of remittance senders cannot be accessed, making it difficult to identify and link senders and recipients to offer them personalized financial services.
- 3.4 The system in Bolivia is not highly developed. Remitters use a variety of informal and insecure systems, including remittance agencies, currency exchange firms, travel agents, and hand delivery. None of these offers additional financial services. In addition to insecurity and the unavailability of other services, the remittance service itself is costly. While this cost has decreased, the average charge in 2004 was 8.4% of the transaction amount. This is very high, considering that the average remittance is US\$240. The cost reflects a lack of competition in the market and the fact that both remitters abroad and recipients in the country of origin are unable to access the traditional financial system. In addition to economical transfer services, customers need a safe place to deposit their remittances, accumulate savings, and access other financial services.
- 3.5 **Additionality.** In order to meet customer needs, FFP PRODEM S.A. is promoting a remittance management model that will bring disadvantaged rural communities into the financial services system. Remittances will spearhead individual and community economic development as a whole by generating savings and lending and bringing new, technologically advanced financial services to rural families. Moreover, executing the project in conjunction with another multilateral institution like IFAD offers benefits in terms of information, technical assistance and lessons learned from other projects now in execution by IFAD.

¹ Recent studies indicate that remittance flows will reach US\$800 million in 2005, or nearly 9% of GDP.

- 3.6 **Similar or related operations.** This will be the MIF's first remittance-related project in Bolivia.

IV. PROJECT OBJECTIVES AND DESCRIPTION

A. Objectives

- 4.1 The project's *general* objective is to help deepen the Bolivian financial system by extending its reach and coverage in rural low-income sectors. The *specific* objective is to promote a remittance management model that will bring disadvantaged rural communities in Bolivia into the financial services system.
- 4.2 The **expected outcomes** are: (i) 1,500 monthly remittances with an average value of US\$240; (ii) development of a remittance-backed housing loan product, and financing construction of 103 housing units to raise the quality of life for individuals, families and communities; (iii) 20% increase in working capital for nearly 100 businesses owned by people who receive remittances from relatives; (iv) investment of 576 loans totaling approximately US\$600,000 in a portfolio to finance rural production-oriented projects (expanding production facilities, purchasing new machinery, etc.) executed by families of emigrants whose incomes depend on remittances from abroad; (v) reduction of transfer costs to a fixed fee of US\$8 plus 1% for transfers of under US\$300, and a fixed fee of US\$5 plus 1.6% for amounts above US\$300; and (vi) 1,500 new savings accounts opened with an aggregate balance of over US\$800,000.

B. Components and activities

- 4.3 **Market penetration (Counterpart: US\$42,500).** With this component PRODEM seeks to develop strategic partnerships with remittance agencies, so as to increase its presence in the United States market and in Bolivia. A market study will also be done to help PRODEM determine the preferences of customers, both senders and recipients of remittances. This will provide important input for a strategy to design and market financial products.
- 4.4 **Rural Financial Services (MIF/IFAD: US\$391,610; Counterpart: US\$237,890).** The objective of this component is to provide efficient, competitive services for the transfer of remittances to Bolivia's rural sector. To do so, FFP PRODEM S.A. will conduct the following activities:
- a. **Product design.** The planned activities are: (a) research to profile senders and recipients of remittances, as well as conventional operators in the Washington D.C.

- area; (b) design of products for senders of remittances,² (c) design of products for recipients,³ and (d) development of a communication strategy.
- b. **Technological upgrades.** The plan requires enhancement of the technology platform and improvement of physical infrastructure at existing offices. The new technology platform will allow FFP PRODEM S.A. to extend its operations beyond simple remittance transfers. It will be able to capture monetary and information flows, in order to bring senders and recipients of remittances a line of customized financial products and services. The platform will also enable FFP PRODEM S.A. to maintain its competitive technological advantage. The MIF/IFAD program will partially fund information technology enhancements for an internal multiservice unit at FFP PRODEM specializing in remittance services.
- 4.5 **Promotion and dissemination (MIF/IFAD: US\$11,000).** Consulting services will be contracted to help FFP PRODEM S.A. draw lessons from the implementation of this innovative line of financial intermediation products for remittances in rural Bolivia.

V. COST, FINANCING AND DURATION

- 5.1 The total project cost is US\$692,000. The MIF will fund US\$291,610 of that amount, IFAD US\$120,000, and FFP PRODEM S.A. US\$280,390 as local counterpart, as shown in the following table:

² (i) Long-distance credit lines with a Visa or MasterCard secured by remittances; (ii) medical, life, property, automobile, and other insurance paid by remittances; (iii) payment of taxes and other services; (iv) payment of school/university tuition; and (v) structured savings for housing, education, healthcare, or retirement.

³ (i) Savings banks, (ii) fixed-term deposits; (iii) structured savings; (iv) short-term loans secured by savings banks; (v) long-term loans secured by deposits; (vi) loans for housing construction and equipment purchases; (vii) insurance; and (viii) payment for services, taxes, school tuition, etc.

Category	MIF	IFAD	PRODEM	Total
Market penetration				
• Strategic partnerships			42,500	42,500
Total			42,500	42,500
Rural financial services				
• Customized product design and training, 76 branches	106,250		39,850	146,100
• National communications plan for products		86,000	18,500	104,500
• Technology platform (software and licensing)	49,000	34,000	31,000	114,000
• Outside consulting to train 16 individuals in the use of the technology platform in La Paz	39,000			39,000
• Outside consulting to train 76 branches on site (6 individuals per branch)	65,000		20,000	85,000
• Equipment procurement for 76 branches	12,360		96,340	108,700
• Equipment for the multiservice unit			32,200	32,200
Total	274,610	120,000	237,890	632,500
Promotion and dissemination				
• Lessons learned	11,000			11,000
Total	11,000			11,000
Evaluation (US\$4,000) and audits (US\$5,000)	9,000			9,000
Project total	291,610	120,000	280,390	692,000

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

VI. EXECUTING AGENCY AND MECHANISM

A. Executing agency

- 6.1 The executing agency will be Fondo Financiero Privado PRODEM S.A. (FFP PRODEM S.A.), a nonbank financial institution incorporated under the laws of the Republic of Bolivia and licensed by the Superintendency of Banks and Financial Institutions to engage in financial intermediation activities. FFP PRODEM S.A. has over 56,000 loan customers and over 118,000 savings customers. It is the fastest growing financial institution in its category.
- 6.2 All of its urban and rural branches have the infrastructure and capacity needed to meet customer needs, with a full range of financial products and services. In terms of remittances, it has been providing money transfer services from various countries as an agent of DHL for over four years (by agreement with Western Union). It has the largest

network in the Bolivian financial system, with 76 branches. With 52 ATMs, it is the pioneer and leader in rural ATMs.

B. Execution mechanism

- 6.3 FFP PRODEM S.A. will serve as the project executing unit through its National Commercial Department. FFP PRODEM S.A. has qualified personnel to coordinate project activities and prepare all necessary management reports. With its own funds, PRODEM will set up a **multiservice unit** under the National Commercial Department that will help to ensure the national consolidation of the remittance system. The staff of the new unit will initially include six highly trained professionals. FFP PRODEM S.A. will directly cover all staff costs associated with the multiservice unit.
- 6.4 In general, the project executing unit will: (i) prepare and execute annual work plans (AWPs); (ii) coordinate and manage (plan, organize, execute, supervise, and review) project activities; (iii) conduct contracting processes in accordance with Bank rules, and supervise procurement of goods and services; (iv) supervise the timely and effective execution of project components; (v) process disbursement requests to the MIF/IFAD program coordinator; (vi) prepare and submit account statements and management reports to the executing agency and the MIF/IFAD program; (vii) monitor the performance indicators established in the logical framework; (viii) conduct selection and procurement procedures for goods and services, consultants, or firms; (ix) supervise and review the work of consultants; (x) monitor budget management and execution using established procedures; (xi) prepare account statements for resources used; (xii) prepare administrative and technical reports for the Bank; (xiii) ensure that all project management and execution mechanisms are in place, and that the program Operating Regulations are effectively observed; (xiv) deliver semiannual progress reports on the project; and (xv) disseminate project outcomes.
- 6.5 Consulting assignments will train personnel for project activities and for the design of remittance-based products. The consulting assignments will include the design and implementation of cross-selling programs with relevant training, as well as preparation of manuals outlining the functions and processes of the new unit. In addition, internal technical staff will be trained for self-sustaining maintenance of the platform. The terms of reference for the consultants will be conditions precedent to the first disbursement.
- 6.6 Unlike conventional systems, the technology platform to be used by FFP PRODEM S.A. will rely on proven convergent solutions that optimize voice and data transmission using Internet technology. A provider with the capacity to integrate telecommunications and information technologies will be selected. The terms of reference for the contracting of this consulting assignment using the shopping method will be a condition precedent to the first disbursement.
- 6.7 **Procurement.** FFP PRODEM S.A. will procure goods and services in accordance with documents GN-2349-4 and GN-2350-4, respectively. Updates to the procurement plan are to be submitted with each semiannual progress report.

- 6.8 **Accounting and audits.** Project accounting and audits will be done in accordance with the MIF/IFAD program Operating Regulations, with which the executing agency states it is familiar. The applicable paragraphs of the Operating Regulations are 4.27 and 4.28.
- 6.9 **Execution period and disbursements.** The estimated execution period for the project is 30 months, and the disbursement period 36 months. Disbursements will be made through advances or replenishments of the revolving fund up to 20% of the net contribution, given that the project involves numerous simultaneous activities requiring large payments. No replenishment of the revolving fund will be permitted until the executing agency has duly justified the use of funds received, in accordance with the parameters set with the executing agency as established in the Logical Framework.

VII. MONITORING AND EVALUATION

- 7.1 **Performance monitoring reports.** FFP PRODEM will prepare and submit project progress reports to the MIF/IFAD program within 30 days after the close of each six-month period, and a final report within 3 months after the last disbursement. Semiannual reports that coincide with the close of the fiscal year will include the annual work plan (AWP) for the following year. Information on monitoring reports, formats, type of information required, and frequency are all addressed in the program Operating Regulations, specifically paragraph 4.22.
- 7.2 **Evaluation.** The program will commission an overall evaluation of all program projects using the funds specified in paragraph 5.2. The MIF/IFAD program provides for the hiring of a coordinator, one of whose responsibilities will be ongoing monitoring of the activities and execution of individual projects. This coordinator may be an external consultant working from the offices of Inter-American Dialogue, which is the firm selected by the MIF and IFAD to provide program administrative support. There is also a possibility that the coordinator may work within the Bank, in the Regional Technical Cooperation Division (INT/RTC) under the technical direction of the MIF Operations Unit (MIF/OPS). Individual project evaluation activities are addressed in the program Operating Regulations, specifically paragraph 4.22.

VIII. JUSTIFICATION

- 8.1 FFP PRODEM S.A. intends to implement a remittance service that offers the following advantages: (i) immediate delivery of funds in any part of the country; (ii) personalized service to remittance senders and recipients; (iii) use of state-of-the-art technology in the transfer of remittances; (iv) competitive commissions; (v) familiarity with senders and recipients; (vi) direct visual communication between senders and recipients; and (vii) simple service without multiple intermediaries.
- 8.2 With a specialized technology platform, FFP PRODEM S.A. will be able to create a record of emigrants abroad and recipients in Bolivia and design products for them, such as health

insurance, life insurance, long-distance loans secured by deposits, direct payment of school tuition, structured savings and other remittance-based services.

- 8.3 **Beneficiaries:** 4,200 low-income rural families. At least 40% of these beneficiaries will be women.

IX. ENVIRONMENTAL AND SOCIAL IMPACT

- 9.1 The Committee on Environment and Social Impact (CESI) reviewed the project on 29 April 2005, and determined that the project team's strategy to address environmental issues was appropriate.
- 9.2 The project itself has no adverse environmental impacts. However, it does represent an important vehicle for raising awareness in the target population about environmental issues, gender issues, and conservation. The project has therefore been specially designed to include training modules in these areas. Moreover, as a condition precedent to disbursement of the project funds, these modules must be shown to be designed and built into the training programs to be financed, and into the products that will link remittances to production-oriented activities. Lastly, as a condition precedent to the first disbursement, it must be shown to the Bank's satisfaction that FFP PRODEM S.A. has altered its credit regulations to reflect the prohibition against financing of activities considered harmful to the environment.

X. SPECIAL CONTRACTUAL CONDITIONS

- 10.1 As conditions precedent to the first disbursement, the following must be submitted to the Bank's satisfaction: (i) the terms of reference for (a) consulting assignments for market studies and products design specified in paragraphs 4.3 and 4.4(a); and (b) consulting work for the design and installation of the new technology platform, under a contract awarded through competitive bidding; (ii) certification that resources are available in the budget to cover the project local counterpart contribution; (iii) the first annual work plan, which will include a project execution timetable with dates for partial fulfillment of the agreed goals; and (iv) evidence to the Bank's satisfaction that FFP PRODEM S.A. has an environmental policy manual to guide its activities in general, and specifically for those related to the granting of loans and to the prohibition against financing of activities considered harmful to the environment.

LOGICAL FRAMEWORK MATRIX

FFP PRODEM

Objectives	Verifiable indicators	Means of verification	Assumptions
Goal			
To help deepen the Bolivian financial system by extending its reach and coverage in rural low-income sectors through efficient management of remittances.	2 or 3 years after project end: More migrants and their families have been brought into the formal banking system.	Reports from the Central Bank of Bolivia, Ministry of Finance	Migrants who send remittances to their families remain able to do so.
Purpose			
To promote a remittance management model that will bring disadvantaged rural communities in Bolivia into the financial services system.	By project end: Approximately 4,200 families who receive remittances, but previously had no access to financial services, will have access to new financial products and services from PRODEM. PRODEM will handle approximately 18,000 remittance transfers per year (1,500 per month with an average amount of US\$240). Savings from remittances will finance construction of approximately 100 housing units and 476 production-oriented projects.	Final evaluation of MIF/IFAD program PCR PRODEM final report	Interest in financial intermediation of remittances continues to grow.

Objectives	Verifiable indicators	Means of verification	Assumptions
<i>Components</i>			
Knowledge-building	<p>The market study is ready by the end of year 1.</p> <p>By project end, PRODEM increases its share of the remittance market by 10%.</p>	<p>Midterm evaluation</p> <p>PRODEM semiannual reports</p> <p>Project performance monitoring report (PPMR)</p> <p>Reports by PRODEM on market breakdown</p> <p>PRODEM financial reports</p>	<p>Demand for remittance transfers continues to grow.</p> <p>PRODEM's institutional efforts to bring its remittance clients into the banking system continue.</p>
Rural financial services	<p>By the end of year 1, at least two remittance-based financial products have been designed, along with an environmental strategy for each.</p> <p>Midway through project execution, PRODEM will show that:</p> <ul style="list-style-type: none"> • it has at least 380 new savings accounts for recipients of remittances from abroad • it has made 14 housing loans for US\$35,000 • it has made 47 investment capital loans for US\$94,000 • 169 customers have received environmental training. 		

Objectives	Verifiable indicators	Means of verification	Assumptions
	<p>By the end of month 24, PRODEM will show that:</p> <ul style="list-style-type: none"> • it has 1,000 new savers with a savings balance of US\$600,000 • it has disbursed US\$320,000 in new loans to remittance-recipient customers • it has made 75 housing loans for US\$150,000 • it has made 100 investment capital loans for US\$118,000. <p>By project end:</p> <ul style="list-style-type: none"> • 1,500 transfers per month with an average amount of US\$240. • Reduction of transfer cost to a fixed fee of US\$8 plus 1% for transfers under US\$300, and a fixed fee of US\$5 plus 1.6% for transfers over US\$300. • 20% increase in the working capital of approximately 100 businesses owned by persons receiving remittances from family members. • 1,500 new savings accounts opened with an aggregate balance of over US\$800,000. 		
Promotion and dissemination	By project end, 750 women in rural areas will receive information on sending remittances.		

Objectives	Verifiable indicators	Means of verification	Assumptions
<i>Activities</i>			
Create a strategic partnership with an international remittance firm.	Agreements with at least 6 remittance firms established in first 6 months.	PRODEM semiannual reports	There is a specialized firm to guarantee the quality of the market studies.
Conduct market studies on the profile of those sending remittances to, and receiving remittances from, Bolivia, and on the types of remittances involved.	Market study to identify customers preferences, done in month 2. Study of profile of senders of remittances conducted in month 4.	PPMR PRODEM financial reports	Experts are available to identify and design financial products. The market strategy takes due account of the financial market preferences of recipient households.
Design new products based on the flow of remittances.	At least 6 products designed in month 12.		
Strengthen technological infrastructure.	Communications strategy developed in month 8.		
Establish multiservice unit.	Technology platform and physical infrastructure updated in month 8.		
Informational workshops.	Multiservice unit established in month 3. Three informational workshops held in month 16.		

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

PROPOSED RESOLUTION

Bolivia. Nonreimbursable Technical Cooperation for the Development of Services
to Improve Remittance Access and Management

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 Fondo Financiero Privado PRODEM S.A, 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 development of services to improve remittance access and management.
2. That up to the amount of US\$291,610, or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to the technical cooperation resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.