

# Donors Committee

## Short Procedure

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**To:** The MIF Representatives  
**From:** The Secretary  
**Subject:** Honduras. Nonreimbursable technical-cooperation funding for the project "Remittances and Savings: Vehicles for Poverty Reduction"

**Inquiries to:** Rebecca Rouse (extension 1326) or María Luisa Hayem (extension 3166)

**Remarks:** This operation is being presented by Short Procedure in accordance with the criteria set out in document MIF/AT-1204 "Regional Facility on Remittances and Savings", approved pursuant Resolution DE-36/12.

The Representatives are requested to inform the Secretary, in writing, no later than **11 July 2014** if they wish to interrupt this procedure. If no such communication is received by that date, the attached document will be considered adopted by the Donors Committee, and a record to that effect will be made in the minutes of a forthcoming meeting.

**Reference:** MIF/AT-1204(10/12), MIF/DE-36/12



DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND

**HONDURAS**

**REMITTANCES AND SAVINGS:  
VEHICLES FOR POVERTY REDUCTION**

**(HO-M1045)  
(HO-T1206)**

**DONORS MEMORANDUM**

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Under the Access to Information Policy, this document is subject to public disclosure.

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**PROJECT SUMMARY**  
**REMITTANCES AND SAVINGS: VEHICLES FOR POVERTY REDUCTION**  
**(HO-M1045) (HO-T1206)**

According to the MIF, Honduras received US\$3.121 billion<sup>1</sup> in remittances from migrants in 2013. Flows of remittances into the country rose by 7.8% in 2013, indicating continued migration and the importance of family remittances. According to the National Statistics Institute of Honduras, one out of every 10 Honduran families has a relative living abroad.<sup>2</sup>

Families living close to or below the poverty line, as is the case with most Honduran households receiving remittances, have limited and sometimes irregular sources of income. They use those resources, which include transfers received from relatives or friends living abroad, to cover their immediate daily needs, such as food and transport. When more costly needs arise, family savings become crucial. Savings are a key mechanism for reducing a family's vulnerability and a way of making future investments in health, education, the home, or the business.

However, despite the large number of Hondurans who receive some or all of their monthly income from remittances in the form of recurrent payments, just 7.9% of these flows are received through bank accounts.<sup>3</sup> Country-wide, fewer than 21% of Hondurans have savings accounts at a formal financial institution. This percentage is even lower when we look at the number of Hondurans living in rural areas who have accounts (14%) or the number of people in the two lowest income quintiles with bank accounts (13%).<sup>4</sup>

This project will help reduce the vulnerability of remittance clients in Honduras and improve their means of subsistence through regular savings in a financial institution. The project objective is increased access to and use of savings by Honduran remittance clients through financial products and services tailored to this population. Red Katalysis will attain this objective by strengthening eight financial institutions in Honduras, building their capacity to introduce planned savings and youth savings products aimed at remittance beneficiaries. It will also institute the first network of correspondent agents operated by microfinance institutions in Honduras. This network will facilitate payment of remittances in previously unserved areas, increase the number of remittance clients of the participating institutions, and facilitate the management of savings products by remittance clients.

The project will directly benefit a total of 14,000 Honduran remittance recipients. It will also benefit an additional 6,000 clients of microfinance institutions who will use products and services offered through the correspondent agents, which will contribute to the financial sustainability of the network.

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<sup>1</sup> Maldonado R., M. Hayem. "Las Remesas a América Latina y el Caribe en 2013: Aún Sin Alcanzar Niveles de Pre-crisis" [Remittances to Latin America and the Caribbean in 2013: Still Not Back to Pre-crisis Levels]. MIF, IDB. Washington, D.C., 2014.

<sup>2</sup> Central Bank of Honduras, Economic Studies Unit. "Encuesta Semestral de Remesas Familiares Enviadas por Hondureños Residentes en el Exterior y Gastos Efectuados en el País Durante sus Visitas" [Six-monthly Survey of Family Remittances Sent by Hondurans Living Abroad and Spending in the Country During Their Visits]. Tegucigalpa, August 2013.

<sup>3</sup> Ibid.

<sup>4</sup> The World Bank. *The Little Data Book on Financial Inclusion 2012*. Washington, D.C., 2012.

## ANNEXES

Annex I	<a href="#">Logical Framework</a>
Annex II	<a href="#">Budget Summary</a>
Annex III	<a href="#">Quality for Effectiveness in Development (QED) Matrix</a>

### AVAILABLE IN THE DOCUMENTS SECTION OF THE MIF PROJECT INFORMATION SYSTEM

Annex IV	<a href="#">Itemized budget</a>
Annex V	<a href="#">Preliminary list of milestones</a>
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## ABBREVIATIONS

AUS	Partnership Trust Fund for Poverty Reduction in Latin America
CAF	Development Bank of Latin America
DEM	Development Effectiveness Matrix
DNA	Diagnostic needs assessment
MFI	Microfinance institution
MIF	Multilateral Investment Fund
OPDFs	Organizaciones privadas de desarrollo que se dedican a actividades financieras [private financial development organizations]
PSR	Project status report

**EXECUTIVE SUMMARY**  
**REMITTANCES AND SAVINGS: VEHICLES FOR POVERTY REDUCTION**  
**(HO-M1045) (HO-T1206)**

<b>Country and geographic location:</b>	17 departments of Honduras		
<b>Executing agency:</b>	Red Katalysis [Katalysis Network]		
<b>Access area:</b>	Access to Finance		
<b>Agenda:</b>	Savings, Payments, and New Distribution Channels		
<b>Coordination with other donors/Bank operations:</b>	This project will be cofinanced by the Partnership Trust Fund for Poverty Reduction in Latin America. (AUS)		
<b>Direct beneficiaries:</b>	This project will have an estimated 20,000 direct beneficiaries. Approximately 60% of the remittance beneficiaries will be women, and 40% men; 20% will be youths, and 80% adults.		
<b>Indirect beneficiaries:</b>	At least 60,000 people belonging to the family unit receiving the remittance will benefit indirectly. <sup>5</sup>		
<b>Financing:</b>	Technical cooperation:	US\$279,583	43.35%
	Investment:	US\$0	
	Loan:	US\$0	
	<b>Total MIF contribution:</b>	<b>US\$279,583</b>	<b>43.35%</b>
	Counterpart:	US\$195,357	30.29%
	AUS cofinancing:	US\$170,000	26.36%
	<b>Total project budget:</b>	<b>US\$644,940</b>	<b>100.00%</b>
<b>Execution and disbursement periods:</b>	36 months for execution, and 42 months for disbursements.		
<b>Special contractual conditions:</b>	(i) Submit letters of commitment from each of the microfinance institutions (MFIs) participating in the project specifying that they are in a position to make the investments for installation of the correspondent agents; and (ii) submit evidence that the project coordinator has been contracted through an open call for proposals.		

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<sup>5</sup> Based on an average household size of four people.

**Environmental and social impact review:** This operation has been preevaluated and classified in accordance with the IDB's Environment and Safeguards Compliance Policy (Operational Policy OP-703). Since the impacts and risks are limited, the proposed classification for the project is category "C."

**Unit with disbursement responsibility:** This project will be supervised by the Country Office in Honduras, which will have disbursement responsibility.



## I. BACKGROUND AND RATIONALE

### A. Regional Facility on Remittances and Savings (RG-M1216)

- 1.1 **Program objectives and components.** In October 2012, the Donors Committee approved nonreimbursable technical-cooperation funding for the “Regional Facility on Remittances and Savings” (RG-M1216) (document MIF/AT-1204). The general objective of that program is increase access to financial products and services tailored to low-income populations in Latin America and the Caribbean. The specific objective is to support the design of business models to develop and offer liquid planned savings products for international remittance clients, to help reduce their vulnerability.
- 1.2 The program will respond to pertinent questions in the Savings, Payments, and New Distribution Channels Agenda for low-income individuals. For example, if remittance clients are offered products tailored to them, will they adopt them in a higher proportion than if they are offered a regular menu of products? If remittance clients are offered products tailored to them in combination with specific marketing strategies and financial education, will they use them more than they use the regular menu of products? If remittance clients use savings accounts linked to remittances, will the percentage they earmark for given areas such as education, health, or housing increase? Do remittance clients who are offered products linked to remittances prefer to save formally rather than informally? Do remittance clients who already have microenterprises and are offered a targeted savings account save more and invest in their businesses? Are remittance clients who use their savings accounts less vulnerable to disturbances, measured as a function of financing for emergencies (e.g., robbery, illness, death, natural disaster), if they have a targeted product? When remittance clients have access to targeted savings products, do they continue the same consumption patterns?
- 1.3 The program has the following components: (i) facility setup and project selection; (ii) funding of selected projects; and (iii) knowledge and communication. The project “Remittances and Savings: Vehicles for Poverty Reduction” (HO-M1045) (HO-T1206) is one of approximately 10 projects to be financed under program component II.
- 1.4 **Program cost.** The total cost of the program is US\$7,956,400, with the Multilateral Investment Fund (MIF) contributing US\$4,822,110 (60.61%) in nonreimbursable funding. Other program donors, including the Partnership Trust Fund for Poverty Reduction in Latin America (AUS) and the Development Bank of Latin America (CAF), will contribute US\$1,420,000 (17.85%). Executing agencies in the region are expected to contribute US\$1,714,290 (21.55%) in resources.
- 1.5 **Project identification.** Program RG-M1216, which is known in Latin America and the Caribbean as the “Remittances and Savings Program,” issued an initial call for expressions of interest in 2012, and 39 institutions expressed interest in

participating in the program. Of the 10 ideas preselected and evaluated by the program team in coordination with MIF staff at Headquarters and in the Country Offices,<sup>6</sup> five were approved by the Advisory Committee to proceed to the project design phase. The project proposed here is the second in this group to be submitted for approval.<sup>7</sup>

## **B. Diagnostic assessment of the problem to be addressed**

- 1.6 **International remittances to Honduras.** According to the MIF, Honduras received US\$3.121 billion<sup>8</sup> in remittances from migrants in 2013. Flows of remittances into the country rose by 7.8% in 2013, indicating continued migration and the importance of family remittances.
- 1.7 The United States is the main destination country of Honduran migrants, with an estimated 449,000 Hondurans living there.<sup>9</sup> More than one third of these migrants do not have legal immigration status in the United States.<sup>10</sup> Other destination countries are Spain, Panama, and Costa Rica.<sup>11</sup>
- 1.8 Growth in the volume of remittances demonstrates that migration to the United States continues to be significant, caused in part by the deterioration in citizen security and living conditions in Honduras.
- 1.9 In the United States, Honduran migrants are concentrated mainly in seven states: Florida (33.6%), Texas (10.2%), California (8.4%), New York (7.4%), New Jersey (7.2%), Louisiana (4.1%), and Virginia (3.9%).<sup>12</sup>
- 1.10 According to the National Statistics Institute of Honduras, one out of every 10 Honduran households has a relative living abroad.<sup>13</sup> Most of those households are in the departments of Cortés (30.8%), Francisco Morazán (25.8%),

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<sup>6</sup> The selection criteria were as follows: (1) Organization: (a) financial and technical capacity of the organization and its track record; and (b) experience in project execution and the provision of financial products and services in the region. (2) Proposal: (a) relevance of the proposal for the problem to be addressed; (b) alignment with program objectives; (c) innovative features; (d) scalability of the initiative or its replication potential. (3) Sustainability: (a) cost-benefit ratio of the project idea; and (b) operating and financial sustainability of the proposal, taking account of the financial soundness of the institution.

<sup>7</sup> The Remittances and Savings Program is expected to cofinance a total of 10 projects.

<sup>8</sup> Maldonado R., M. Hayem. "Las Remesas a América Latina y el Caribe en 2013: Aún Sin Alcanzar Niveles de Pre-crisis" [Remittances to Latin America and the Caribbean in 2013: Still Not Back to Pre-crisis Levels]. MIF, IDB. Washington, D.C., 2014. Forthcoming.

<sup>9</sup> Brown, Anna and Patten, Eileen. "Hispanics of Honduran Origin in the United States, 2011." Pew Research Hispanic Trends Project. Washington, D.C., 2013.

<sup>10</sup> Ibid.

<sup>11</sup> Ibid.

<sup>12</sup> Central Bank of Honduras, Economic Studies Unit. "Encuesta Semestral de Remesas Familiares Enviadas por Hondureños Residentes en el Exterior y Gastos Efectuados en el País Durante sus Visitas" [Six-monthly Survey of Family Remittances Sent by Hondurans Living Abroad and Spending in the Country During Their Visits]. Tegucigalpa, January 2014.

<sup>13</sup> Muñoz, Armando. "Récord en Ingresos por Remesas Familiares en Honduras" [Record Family Remittance Income in Honduras]. *La Prensa Honduras*, 15 January 2014.

Atlántida (15.9%), Olancho (6.4%), and Yoro (5.1%). More than half (55.6%) are located in urban areas, and 44.4% in rural areas.<sup>14</sup> An estimated 67% of remittance recipients in Honduras are women.<sup>15</sup>

- 1.11 While 49% of Honduran remittance senders remit them to their parents,<sup>16</sup> 47% of senders living in the United States have children living in Honduras.<sup>17</sup> These children are often minors who remain in the country cared for by their grandparents or other relatives in the absence of the migrant parent. In these cases, although the remittance recipient is a family member of legal age, that person is managing the child's money who is usually the beneficiary of the transfer. Nearly 20% of senders of remittances send them directly to their children.<sup>18</sup>
- 1.12 Family remittances are the third-largest source of income for Honduran households, accounting for 11.1% of their income, and coming after wages (42.4%) and other activities (36.2%).<sup>19</sup> Approximately 70% of remittances are used for household expenses, including food and clothing.<sup>20</sup>
- 1.13 **Problem to be addressed.** Despite the significant number of Hondurans who receive some or all of their monthly income from remittances in the form of recurrent payments, just 7.9% of these flows are received through bank accounts.<sup>21</sup> Country-wide, fewer than 21% of Hondurans have savings accounts at a formal financial institution. This percentage is even lower when we look at the number of Hondurans living in rural areas who have accounts (14%) or the number of people in the two lowest income quintiles with bank accounts (13%).<sup>22</sup>

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<sup>14</sup> Isaku Endo, Sarah Hirsch, Jan Rogge, and Kamil Borowik. "The U.S.-Honduras Remittance Corridor: Acting on Opportunities to Increase Financial Inclusion and Foster Development of a Transnational Economy." World Bank. Washington, D.C., 2010.

<sup>15</sup> Ibid.

<sup>16</sup> Central Bank of Honduras, Economic Studies Unit. "Encuesta Semestral de Remesas Familiares Enviadas por Hondureños Residentes en el Exterior y Gastos Efectuados en el País Durante sus Visitas" [Six-monthly Survey of Family Remittances Sent by Hondurans Living Abroad and Spending in the Country During Their Visits]. Tegucigalpa, January 2014.

<sup>17</sup> Orozco, M., Jewers, M. "Economic Status and Remittance Behavior among Latin American and Caribbean Migrants in the Post-Recession Period." Inter-American Dialogue. Washington, D.C., forthcoming.

<sup>18</sup> Central Bank of Honduras, Economic Studies Unit. "Encuesta Semestral de Remesas Familiares Enviadas por Hondureños Residentes en el Exterior y Gastos Efectuados en el País Durante sus Visitas" [Six-monthly Survey of Family Remittances Sent by Hondurans Living Abroad and Spending in the Country During Their Visits]. Tegucigalpa, January 2014.

<sup>19</sup> Ibid.

<sup>20</sup> Ibid.

<sup>21</sup> Central Bank of Honduras, Economic Studies Unit. "Encuesta Semestral de Remesas Familiares Enviadas por Hondureños Residentes en el Exterior y Gastos Efectuados en el País Durante sus Visitas" [Six-monthly Survey of Family Remittances Sent by Hondurans Living Abroad and Spending in the Country During Their Visits]. Tegucigalpa, August 2013.

<sup>22</sup> The World Bank. *The Little Data Book on Financial Inclusion 2012*. Washington, D.C., 2012.

- 1.14 Honduran families living close to or below the poverty line, as is the case with most Honduran households receiving remittances, have limited and sometimes irregular sources of income. They use those resources, which include transfers received from relatives or friends living abroad, to cover their immediate daily needs, such as food and transport. When more costly needs arise, family savings become crucial.<sup>23</sup> Savings are a key mechanism for reducing a family's vulnerability and a way of making future investments in health, education, the home, or the business.
- 1.15 Savings are a fundamental ingredient for the financial inclusion of low-income groups, since they permit them to manage short-term liquidity for convenience and security and build up assets to attend to future needs. The MIF's experience indicates that many families who receive remittances save money informally, outside the formal financial system. However, informal savings have major drawbacks for low-income households. Keeping money at home is unsafe; savings in kind (for example buying land or jewelry) have differing degrees of liquidity. Moreover, informal savings do not facilitate access to other financial products such as loans.
- 1.16 On the supply side of savings products for remittance recipients, many financial institutions that participate in the remittance market limit their involvement to making payments, acting as the agents of money-transfer companies and distributing cash, without targeting other potential financial needs of remittance clients. Most institutions do not offer them other products or services and make no marketing efforts targeted to remittance recipients, nor do they offer financial education.
- 1.17 **Causes of the problem.** The above situation results from the fact that the financial intermediaries frequently do not view remittance services and the cross-sale of other financial products as a profitable business. Many institutions that pay remittances are unaware of the needs and preferences of these unbanked clients who regularly receive remittances through their points of sale. However, in a poll conducted in 2007, 55% of Hondurans who receive remittances reported being "very interested" in having a savings account at a formal financial institution.<sup>24</sup> In a survey commissioned by the MIF in 2013, 72% of remittance recipients had another source of income as well. They receive an average of US\$120 per remittance from their relatives abroad, 14 times a year. This regular income makes them good candidates for savings products.
- 1.18 Another important cause of the low level of use of banking services by Honduran remittance recipients is the distance they would need to travel and the ensuing

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<sup>23</sup> The savings products are part of a menu of financial tools that can help to reduce the vulnerability of low-income households, along with microinsurance and credit programs.

<sup>24</sup> Isaku Endo, Sarah Hirsch, Jan Rogge, and Kamil Borowik. "The U.S.-Honduras Remittance Corridor: Acting on Opportunities to Increase Financial Inclusion and Foster Development of a Transnational Economy." World Bank. Washington, D.C., 2010.

costs to withdraw their remittances, make deposits, and access other types of financial products and services. This is due, among other factors, to the high cost to financial institutions of establishing branches with high fixed costs. **Proposed solution model.** The project will increase access to savings accounts and promote their regular use by Honduran remittance clients by designing and introducing products and services adapted to this population, offered by eight microfinance institutions with points of service in 17 of the country's departments. The project expects to instill the habit of savings among remittance recipients, and facilitate the delivery of remittances and the capture of savings, through a network of correspondent agents in previously unserved areas with high concentrations of remittance receivers.

- 1.19 **Enabling regulatory framework.** In December 2013, the National Banking and Insurance Commission of Honduras published Resolution GE 2510/16-12-2013, which establishes rules governing the authorization and operation of correspondent agents in the country. The rules authorize them to participate in paying international remittances, open basic savings accounts, handle cash deposits and withdrawals from existing accounts such as planned savings accounts, and allow for consultations of balances, among other operations. With this resolution, the financial institutions participating in the project may extend the reach of their products and services to remittance recipients in unserved or underserved areas, such as rural zones, to facilitate the payment of remittances and deposit-taking. This initiative will be one of the first in the country under the new rules for correspondent agents.

### C. **Project beneficiaries**

- 1.20 The project beneficiaries will be 10,000 adult remittance recipients in Honduras. A further 6,000 Hondurans will benefit from the use of the correspondent agents of the microfinance institutions, Approximately 60% of the beneficiaries will be women. This project is expected to develop products and promotion campaigns targeted to women who receive remittances. Remittance recipients are mostly the parents, children, siblings, and grandparents of migrants who have stayed in the country and who are generally responsible for managing the remittances they receive. These families come from a medium/low and low socioeconomic stratum and form part of Honduras's "vulnerable sector." The factors leading one or more family members to leave the country include unemployment, violence, and fear for personal safety.<sup>25</sup>
- 1.21 Project beneficiaries will include 4,000 youths between the ages of 15 and 24<sup>26</sup> belonging to families that receive remittances. Almost half of Hondurans are

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<sup>25</sup> <http://www.elheraldo.hn/Secciones-Principales/Al-Frente/Masiva-fuga-de-hondurenos-por-inseguridad-y-desempleo-en-el-pais#panel1-1>.

<sup>26</sup> Using the definition of "youth" adopted by the United Nations. See: <http://www.unesco.org/new/en/social-and-human-sciences/themes/youth/youth-definition/>.

under 20 years of age, 60% live in poverty, and 39% in extreme poverty.<sup>27</sup> Youths who are the children of migrants are highly vulnerable on account of a combination of poverty, social exclusion, and the strong influence in their communities of organized criminal gangs. School dropout rates exceed 72% among Honduran youths between the ages of 16 and 18.

- 1.22 **Gender.** About 60% of remittance recipients are women. The design of products and reminder messages will be based on information obtained during marketing studies, with results broken down by gender as part of the analysis. The monitoring indicators will also be broken down by gender.

**D. Contribution to the MIF mandate, Access Framework, and IDB strategy**

- 1.23 This project (and others that replicate the lessons learned) will contribute to poverty reduction in Latin America and the Caribbean because it lessens the vulnerability of Honduran low-income remittance clients and promotes investments in productive activities and human capital. The project promotes access to savings products for low-income remittance clients and the regular use of savings products to foster a culture of savings. It is expected that the savings built up by project beneficiaries will contribute to higher investments in housing, health, and/or education. These cumulative savings will also be used to finance emergencies caused by robberies, illnesses, or natural disasters, without the beneficiaries having to go into debt. The project will also contribute to private sector development by boosting its capacity to offer products and services tailored to this group, building its savings portfolio, and making inclusive financial products and services more accessible through correspondent agents.
- 1.24 **Linkage to the agenda.** This project will contribute to the objectives of the Savings, Payments, and New Distribution Channels Agenda, which promotes increased access to financial services and their use by unbanked and underbanked individuals in the region. It will contribute to the agenda's indicators related to: (i) increasing the number of payment clients—in this case remittance clients—who have access to savings products and use them; and (ii) increasing the use of new targeted distribution channels to facilitate access to financial products and services.
- 1.25 The project will help to close the knowledge gap in remittances and savings by developing innovations in financial products and services and methodologies for creating the habit of savings among remittance clients. The project has a component to disseminate experiences that will be led by the executing agency. In addition, knowledge products generated by this experience will be financed under component III of the Remittances and Savings Program (RG-M1216), whose objective is to capture, systematize, and communicate the lessons learned from the project (see paragraph 1.2 for a list of the questions addressed by that

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<sup>27</sup> National Program for Prevention, Rehabilitation, and Social Reintegration. "Situación de Maras y Pandillas en Honduras" [The Gang Situation in Honduras]. Tegucigalpa, July 2012.

program). The project proposed here will be included in a comprehensive evaluation of the program, and knowledge products will also be financed to share experiences as part of its component III.

- 1.26 **Cooperation with the IDB Group.** This project is consistent with the IDB's country strategy with Honduras, inasmuch as it seeks to reduce poverty and improve the quality of life of low-income groups by developing human capital and providing better access to quality services. It will contribute to the Bank's indicators in three of the five areas identified in the country strategy (financial system, social protection, and health) by promoting investments in productive activities, human capital, and health by remittance client households through access to savings.

## II. OBJECTIVES AND COMPONENTS

### A. Objectives

- 2.1 The expected impact of the project is to help reduce the vulnerability of remittance clients (particularly youths who will account for at least 20% of beneficiaries) in Honduras and improve their means of subsistence through regular savings in a financial institution. The outcome objective of the project is increased access to and use of savings by Honduran remittance clients through financial products and services tailored to this population.

### B. Intervention model

- 2.2 The Honduran organization Red Katalysis [Katalysis Network] will work with eight financial institutions that cover 17 of the country's departments to design and introduce new financial products and services. Red Katalysis is a mutual benefit civil association with over 12 years of experience in strengthening microfinance institutions (MFIs) in Honduras. For the purposes of the proposed project, Red Katalysis has identified eight financial institutions that it will provide with resources and technical assistance to introduce new savings products for remittance recipients. The financial institutions that will participate in this project are Asociación PILARH OPDF, Banco Popular, Credisol OPDF, Familia y Medio Ambiente OPDF, Financiera Finsol S.A., Hermandad de Honduras OPDF, ODEF Financiera S.A., and Funed VisionFund OPDF.
- 2.3 Of the eight participating institutions, one is a bank, two are finance companies, and five are private financial development organizations (OPDFs). Three of the institutions—the bank and the two finance companies—can take deposits from the general public with no additional requisites. In the case of the five institutions established as OPDFs, Article 38 (3) of the Law Regulating Private Financial Development Organizations establishes that the OPDFs can receive savings and term deposits only from their borrowers. However, the experience of the OPDFs participating in this project has demonstrated that with a product that integrates a loan as part of the initial deposit in the account, the OPDFs can serve direct

savers, such as remittance recipients. The loans in question do not cause clients to go into debt, but act as the initial deposit in their savings accounts and serve as a means of broadening access to savings products by groups that had previously been excluded.

**Table 1: Financial institutions participating in the project**

Institution	Type	Supervision	Resolution authorizing operation
Banco Popular	Bank	National Banking and Insurance Commission	CNBS Resolution 1394/26-12-2007 issued on 26 December 2007. <sup>28</sup>
Credisol OPDF	Private financial development organization	National Banking and Insurance Commission	Resolution 1433/18-11-2008 issued on 18 November 2008.
Familia y Medio Ambiente OPDF	Private financial development organization	National Banking and Insurance Commission	Registration No. 16-003 issued on 2 June 2005
Financiera Solidaria, S.A., FINSOL	Finance company	National Banking and Insurance Commission	Resolution 338-9/98 issued on 17 September 1998
Fundación Microfinanciera Hermandad de Honduras OPDF	Private financial development organization	National Banking and Insurance Commission	Resolution 1285/22-11-2005 issued on 22 November 2005
FUNED VisionFund OPDF	Private financial development organization	National Banking and Insurance Commission	Resolution 44/15-01-2008 issued on 15 January 2008
ODEF Financiera S.A.	Finance company	National Banking and Insurance Commission	Resolution 092/22-01-2008 issued on 22 January 2008
PILARH OPDF	Private financial development organization	National Banking and Insurance Commission	Registration No. 1606 issued on 22 October 2007

- 2.4 Six of these institutions currently pay remittances<sup>29</sup> under agreements with the international remittance company Western Union and together they make a total of 23,000 remittance transactions a month. The transactions correspond to about 15,000 existing clients. According to a poll of the institutions that will pay remittances under this project, just one out of every five current remittance clients has a formal relationship with the financial institution, i.e. has a savings account at the same institution where they receive their remittance payments.
- 2.5 The savings products to be offered to remittance clients will be designed to steer them into savings and investments. Red Katalysis will work with the eight financial institutions to design and introduce at least one planned savings product and one youth savings product, both targeted to remittance clients. The project will also create a new distribution channel involving correspondent agents, which

<sup>28</sup> The new resolution in effect amending the Articles of Incorporation and By-laws of the Bank is CNBS Resolution GE 074/13-01-2011.

<sup>29</sup> Only PILARH OPDF, and FUNED VisionFund OPDF do not pay remittances. The program will enable these two institutions to make payments and, by the end of the project, all eight institutions will pay remittances.



will permit the MFIs to pay remittances and offer savings products (among other products) in previously unserved areas. The experience gained during the project will be documented by Red Katalysis and shared with other institutions in Honduras.

- 2.6 Red Katalysis proposes a plan to promote financial access for the remittance clients of its members through three main activities: (i) a financial inclusion strategy targeted to adult remittance recipients through planned savings; (ii) a financial inclusion strategy targeted to young people benefitting from remittances through a youth savings product; and (iii) development and implementation of new distribution channels through correspondent agents.
- 2.7 This project intends to strengthen the eight participating financial institutions through technical assistance provided by Red Katalysis to build their capacity to improve products and services targeted specifically to remittance recipients and to expand remittance distribution networks into previously unserved areas, which will help lower the cost to clients of receiving remittances and facilitate their access to other financial products. Red Katalysis, as a network of institutions, will make it possible to strengthen eight financial institutions under a single project, with an impact on 17 of the country's departments.

**Table 2: Technical assistance areas for each institution, by need**

Institution	Remittances	Liquid savings	Planned savings	Youth savings	Network of agents	Financial education
Banco Popular			X	X	X	X
Credisol OPDF		X		X		X
Familia y Medio Ambiente OPDF			X	X	X	X
Financiera Solidaria, S.A., FINSOL			X	X	X	X
Hermanidad de Honduras OPDF			X	X	X	X
FUNED VisionFund OPDF	X		X	X		X
ODEF Financiera S.A.			X	X	X	X
PILARH OPDF	X		X	X	X	X

- 2.8 Red Katalysis will **develop a planned savings product** for male and female adult remittance recipients. The product will be adopted and offered by seven of the participating financial institutions. Also known as ‘contractual savings’, a planned savings product permits clients to regularly deposit a given sum and make withdrawals only for a certain purpose within a period specified in advance. The term ‘contractual savings’ does not mean compulsory or forced savings.

- A planned savings product should include a mix of incentives, reminders, and penalties suited to the context and the target market.<sup>30</sup>
- 2.9 Planned savings products help to save part of current income to cover future needs instead of having to take out a loan based on limited, irregular future income. Several experiences have shown that formal savings can be incentivized among the low-income population when linked to a highly-prized goal, such as a down-payment on a house, the education of a child, or retirement.<sup>31</sup> Planned savings products, like loan products, are part of a menu of financial products that reduces the vulnerability of low-income families.
- 2.10 The eighth financial institution participating in the project, Credisol OPDF, does not currently take deposits, and Red Katalysis's work with that institution will be to introduce a **liquid savings product** for remittance recipients.<sup>32</sup> Liquid or "transactional" accounts are accounts that include liquid or demand deposits, current accounts, and other accounts that can be used for convenience and security. Having a savings account and using it, even if only a basic account, is increasingly viewed as an indispensable condition for reducing vulnerability and improving the financial prospects for low-income individuals. The savings captured by this product are expected to help Credisol OPDF diversify its funding sources. The project is intended to introduce liquid savings at Credisol OPDF and not at the other institutions because six already have such products and do not have the same need. The eighth institution, FUNED VisionFund OPDF, will develop its first liquid savings product with technical assistance from the World Vision International network and does not need an intervention under this project.
- 2.11 Red Katalysis also proposes to **develop a youth product for remittance beneficiaries**. In Honduras, just 17% of youths between the ages of 15 and 24 have bank accounts.<sup>33</sup> However, they are called on to make important decisions at that age—for example, whether to continue on with higher education or enter the workforce, whether to start a family, etc. The use of savings accounts and a better understanding of the importance of saving can reduce the vulnerability of youths in these important transitions and lay a solid foundation for their financial future. Youths benefitting from remittances can begin to manage their funds responsibly, as positive financial management habits are instilled and they are helped to reach their personal development goals, such as education, or entrepreneurship.

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<sup>30</sup> Reyes, Andrea. "No Hay Receta Perfecta para el Ahorro Programado" [No Perfect Recipe for Planned Savings]. MIF, September 2013 <http://www.pro-savings.org/es/no-hay-receta-perfecta-para-el-ahorro-programado>.

<sup>31</sup> See the research by Karlan et al., available at: <http://www.povertyactionlab.org/evaluation/savings-account-labeling-ghana>; and Nava Ashraf, Dean Karlan, and Wesley Yin. "Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines." *The Quarterly Journal of Economics* (2006) 121 (2): 635-672.

<sup>32</sup> The other seven institutions already have liquid savings products.

<sup>33</sup> The World Bank. *The Little Data Book on Financial Inclusion 2012*. Washington, D.C., 2012.

- 2.12 To facilitate the distribution of these and other financial products offered by the institutions, Red Katalysis will support the **creation of a new distribution channel through a network of correspondent agents** to be used by six of the financial institutions: Banco Popular, Financiera Solidaria, S.A. (FINSOL), ODEF Financiera S.A., Familia y Medio Ambiente OPDF, Fundación Microfinanciera Hermandad de Honduras OPDF, and PILARH OPDF. The correspondent agents will be businesses such as general stores that will offer services representing a financial institution through their points of sale. Offering financial services through agents has a dual advantage: first, it permits the financial institutions to offer services in previously underserved or unserved areas at low cost, without having to invest in a branch; second, the model has benefits for the commercial agents as well, generating a new source of income for their businesses and attracting new clients.
- 2.13 The regular use of savings products is important, not just for the wellbeing of remittance clients but also for the profitability of the institution. That is why Red Katalysis is proposing to **develop a savings education program** to be implemented at the eight participating financial institutions. Red Katalysis will review the institutions' existing financial education materials and adjust the methodologies to the needs of remittance clients.

### III. COMPONENTS

- A. Component I: Technical assistance for microfinance operators in managing a savings portfolio and effectively capturing remittances (MIF: US\$97,365; Counterpart: US\$43,135; AUS: US\$59,450)**
- 3.1 The objective of this component is to promote the use of savings products by remittance recipients in Honduras by developing savings products adapted to their needs and preferences. The products to be developed are: (i) an account for liquid savings and receipt of remittances at Credisol OPDF, which does not presently take deposits; (ii) a planned savings product introduced at the seven other institutions; and (iii) a youth savings product introduced at seven institutions.
- 3.2 This component's activities include the development and promotion of three new financial products targeted specifically to remittance beneficiaries that seek to meet the different needs and goals of adult and youth remittance recipients. This component will finance the following activities: (i) a market study in Honduras and the United States; (ii) introduction of a remittance payment service at PILARH and FUNED VisionFund OPDF, which do not presently pay remittances; (iii) development of savings products (liquid, programmed, and youth savings) for remittance receivers; and (iv) dissemination of savings products in Honduras.
- 3.3 The market study will be conducted in the western, northern, and east-central parts of Honduras and in one United States city where there is a large group of Honduran migrants, such as Miami. The MIF's experience suggests that it is

- important to know the profiles of remittance senders and receivers to understand their family needs, segment the market, and design products to meet their needs. In the case of Honduras, little up-to-date information is available on the characteristics of remittance recipients. Therefore, an expert consultant will be engaged to perform a detailed study, to be financed by the MIF. This market study will be segmented by gender, age, and geographic location, among other factors. The market study will be performed before the financial products are developed so that its results can be used in their design. The results will be disseminated among the participating institutions during the product design phase.
- 3.4 Red Katalysis will coordinate the design of the savings products and provide technical assistance for the eight financial institutions in implementing them. The products will include one liquid savings product, one planned savings product per institution, with different objectives and incentives (since the needs of remittance clients are not uniform), and a youth savings product for young people receiving remittances (15 to 24 years of age). The design of each product will use the results of the market study as input and will take gender segmentation into account.
- 3.5 Once the new products are developed, Red Katalysis will support the financial institutions by implementing an education program on savings targeted to remittance clients. Red Katalysis will also coordinate a publicity campaign for the new products that includes the design of a large-scale campaign by a firm, to benefit the financial institutions participating in the project. Promotion of these products linked to remittances will also help the financial institutions to expand their share of the remittance market in Honduras, increasing their client numbers.
- B. Component II: Development of a distribution channel through correspondent agents (MIF: US\$103,915; Counterpart: US\$76,562; AUS: US\$63,463)**
- 3.6 The objective of this component is to facilitate access to products and services, including remittance payments and savings products, for remittance recipients and other clients of the project's financial institutions in currently unserved areas. Red Katalysis will implement the first network of microfinance institution correspondent agents in Honduras. Creation of this network will facilitate access to financial products and services by remittance recipients in unserved urban areas, as well as in rural areas, where more than 44% of the country's remittances are sent, but the coverage of points of service for remittances continues to be limited.<sup>34</sup>
- 3.7 By developing correspondent agents, the microfinance institutions will have an important tool for delivering remittance payments to areas previously unserved by remittance companies and/or financial institutions, reducing travel and other costs entailed in collecting remittances. As well, the correspondent agents will provide

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<sup>34</sup> Isaku Endo, Sarah Hirsch, Jan Rogge, and Kamil Borowik. "The U.S.-Honduras Remittance Corridor: Acting on Opportunities to Increase Financial Inclusion and Foster Development of a Transnational Economy." World Bank. Washington, D.C., 2010.

- access to the savings products designed as part of this project, in addition to other financial services, such as payment of public utilities. The correspondent agents will be a source of new clients for the financial institutions and will facilitate financial inclusion for remittance clients in unserved areas.
- 3.8 The main activities in this component are: (i) the design of a business model for a network of correspondent agents; and (ii) implementation of the correspondent agent business model at 80 participating businesses. Red Katalysis will work with six of the participating institutions to implement the correspondent agent network, creating a total of 80 new points of service. The target of 80 points of service is based on a preliminary analysis and takes account of the project period, based on the experiences of other MIF projects such as ES-M1041 in El Salvador. However, the feasibility study will provide a more exact determination of the number and location of the agents needed, not just during the project period but over the long term.
- 3.9 During the design phase, Red Katalysis will organize an exchange for the financial institutions with another entity in the region, probably in Colombia, to learn about its experiences and select an implementation model. After this exchange, Red Katalysis will conduct a feasibility study to determine the best implementation model, including an analysis of the capacity of the financial institutions, cash flow projections, and price calculations. Based on that feasibility study, an implementation plan will be established for this component, including the final selection of institutions with the capacity to take on correspondent agents and the number of agents needed for sustainability of the network. Implementation of the model will include training for the financial institutions in managing correspondent agents, training for the participating businesses, and a promotion strategy.
- C. Component III: Dissemination of project experiences (MIF: US\$0; counterpart: US\$18,000)**
- 3.10 The objective of this component is to systematize the experiences of designing and developing the savings products and to explain and publicize the lessons learned. Part of Red Katalysis's mission is to build the capacity of institutions that offer financial products and services, which it pursues by developing and disseminating knowledge products and holding events.
- 3.11 The activities under this component are: (i) focus groups and compilation of information to produce a final learning document; and (ii) workshops to exchange experiences with other financial institutions in the country to disseminate the results and lessons learned from this project. These activities will help build the capabilities of at least 100 representatives of financial institutions and encourage the expansion of efforts into the market of remittance receivers, or their replication.

#### **D. Project governance and execution mechanism**

- 3.12 Red Katalysis will be responsible for executing the project and attaining its objectives. To that end, it will establish an execution unit and appoint a project coordinator who will report to Red Katalysis's General Manager. The project coordinator will be responsible for the execution unit's main functions during the project, including: (a) preparation and approval of the annual work plan to be carried out by the execution unit; (b) evaluation of progress in each component; (c) control of all administrative, financial, and procurement procedures, with the assistance of the project administrator who will be responsible for the financial and technical details of the project; (d) preparation of the results reports; and (e) analysis and updating of materials and methodologies to subsequently share them with the MFIs.
- 3.13 The MIF team from the Remittances and Savings Program, in coordination with IDB/MIF staff in Tegucigalpa, will participate in monitoring and support activities in knowledge areas contributing to the objectives of that program, including general information and the creation of knowledge products.

#### **E. Sustainability**

- 3.14 After an initial investment in the design and implementation of financial products and development of the distribution network through the correspondent agents, the elements needed to make this intervention profitable and sustainable for the participating financial institutions are expected to be in place after the MIF counterpart funding ends. Obtaining a critical mass of clients who use the correspondent agents is a highly important success factor for the project. Therefore, the project envisages offering a diverse range of financial products through the correspondent agents and not just the payment of remittances and taking savings deposits. One results indicator is attracting 6,000 financial institution clients who regularly use a correspondent agent to conduct transactions. This results indicator is over and above the number of remittance clients who use the correspondent agents, and reflects the importance of reaching a critical mass of clients for the long-term profitability of the network of correspondent agents. Other services to be provided by the agents are: (i) opening basic savings accounts; (ii) deposits and cash withdrawals from previously established accounts; (iii) acceptance of loan and credit card payments; (iv) receipt and sending of transfers within the country; (v) payment of government conditional cash transfers; and (vi) payment of public utilities.
- 3.15 At the end of execution, a **sustainability workshop** will be held with all the institutions involved to identify the measures needed to ensure the continuity of project actions after the funding ends. Knowledge and lessons learned by the various participating institutions will be shared at the event.

**F. Lessons learned by the MIF and other institutions in project design**

- 3.16 The MIF's more than 10 years of experience in remittances,<sup>35</sup> including projects to provide access to banking services for remittance clients executed in countries such as Bolivia, Dominican Republic, Ecuador, El Salvador, Haiti, Honduras, Mexico, and Paraguay has demonstrated the importance for financial intermediaries of going beyond the simple payment of remittances and expanding the client base by generating financial products and services targeted specifically to the population that receives remittances. Those projects have also shown that remittances are a vehicle for integrating remittance clients into the financial system.
- 3.17 The experience of those projects has highlighted a series of elements that will be kept in mind during the design of the proposed project, including: (i) the importance of establishing a relationship of trust between the financial intermediary and the client, sometimes through financial education or other client service programs, to ensure greater use of products adapted to this population; (ii) the importance of properly targeting and segmenting clientele so that the products developed, their marketing, and their distribution channels will reflect the needs and preferences of the segment; (iii) the importance of including all the links in the remittance value chain in the business strategy, from the point of remittance to the point of receipt.
- 3.18 This project will also reflect the knowledge and lessons learned from the projects in execution under program RG-M1198, "Linking Social Protection Payments to Savings," which seeks to develop and implement liquid and planned savings products targeted to people receiving conditional cash transfers or other social welfare payments in Latin America and the Caribbean.
- 3.19 This project will incorporate the lessons learned from project ATN/ME-8046-HO, "Savings Mobilization through Microfinance Institutions," implemented by Red Katalysis. That project was approved in 2002 and was intended to increase domestic savings by Honduran microentrepreneurs through an awareness program with microfinance institution clients. The lessons learned include: (i) mobilization of savings requires a large volume of transactions whose management and administration demand appropriate technologies; adapting information systems may involve high costs but they are necessary for a project's success; (ii) boards of directors need to be trained to instill an organizational culture geared to the supply of the new products that have been designed; and (iii) a communication strategy is essential for informing clients about the new products and distribution channels.
- 3.20 The project will also incorporate the lessons learned from project HO-M1019, "Diversifying Urban and Rural Financial Services of Honduran Microfinance

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<sup>35</sup> "Diez Años de Innovación en Remesas: Lecciones Aprendidas y Modelos para el Futuro" [Ten Years of Innovation in Remittances: Lessons Learned and Models for the Future]. MIF, IDB. May 2010.

Institutions,” implemented by Red Katalysis. Approved in 2008, that project sought to design and implement, through MFIs, microfinance services to meet the needs of young entrepreneurs and elderly clients. Red Katalysis’s experience working with youth products will be useful in developing a savings product for young remittance beneficiaries in this new operation. The lessons learned from project HO-M1019 include: (i) training in the management of new financial services requires sufficient time to reap the full benefits of new financial products, principally by the MFIs’ field personnel; and (ii) there is keen interest by the MFIs in working with the youth segment, which can be addressed using other types of products, for example, the youth savings products envisaged in this project.

**G. The MIF’s additionality**

- 3.21 **Nonfinancial additionality.** The MIF will share the knowledge stemming from its more than 10 years of experience with remittances and the development of financial products and services for unserved remittance clients. The strong knowledge component in the Remittances and Savings Program, which will be used to prepare migrant profiles and case studies of experiences expanding access to the formal banking system, among other knowledge products, will also contribute to implementation of the present project.
- 3.22 This project will also have synergies with other similar initiatives financed in the past by the MIF or implemented by MIF partners, such as the current project DR-M1030, “Promotion of Savings and Credit among Remittance Recipients in the Dominican Republic.” It will also share experiences and best practices with other financial institutions with projects being executed under the Remittances and Savings Program.
- 3.23 The MIF’s reputation in the area of remittances will reinforce this intervention by Red Katalysis to reach remittance recipients and will enable the participating financial institutions to position themselves in this niche and subsequently share their experience, which it is hoped can be replicated by other financial institutions in Honduras and in other Central American countries where Red Katalysis is active.
- 3.24 The MIF’s involvement will also help to ensure that the lessons learned from this intervention will be translated into knowledge products to benefit the remittance industry in general. It will also be possible to measure the impact of savings on remittance recipients, about which very little evidence exists to date.
- 3.25 The MIF’s participation has attracted funds from the Partnership Trust Fund for Poverty Reduction in Latin America (AUS), which will contribute with an investment amounting to 26.35% of the total cost of technical cooperation for this initiative. The project will also tap the additional knowledge of AUS.
- 3.26 **Financial additionality.** The MIF’s financial involvement in this project is crucial for attaining its objectives, since with its support for the initial investment



for the design and implementation of financial products targeted to remittance recipients and the development of a new product distribution channel, Red Katalysis can test a new business model, working in conjunction with the eight participating institutions and reaching a segment of the remittance receiver population that had not been served in the past.

## **H. Project outcomes**

- 3.27 As a result of this project, 14,000 Honduran remittance clients will access at least one new savings product. About 10,000 clients will open a planned savings account, and 4,000 remittance beneficiaries between the ages of 15 and 24 will open a youth savings account. At least 4,200 of the remittance clients with a new savings product are expected to keep their account active, making a minimum of one deposit per month. Of the 14,000 Honduran clients of a new savings product, about 2,800 are expected to have been previously unbanked, and so will gain access to savings products for the first time. Of the remittance clients who obtain savings products as part of this project, 2,000 will receive their remittances or make regular savings deposits through a correspondent agent established as part of the project. Lastly, some 6,000 additional clients of the participating institutions area expected to regularly conduct financial transactions with a correspondent agent operating as a result of the project.
- 3.28 According to an analysis by Red Katalysis, these outcomes are attainable during the project period through efforts directed to approximately 27,500 remittance clients (including the 15,500 existing clients and the 2,800 new remittance clients of the institutions attracted through the addition of new remittance payment services at PILARH OPDF and FUNED VisionFund OPDF as part of this project) with an estimated growth rate of 50% during the project as a result of aggressive expansion into new markets where correspondent agents will be established to attract new remittance clients. For the results of the youth savings product, Red Katalysis estimates that about 20% of the expected 27,500 remittance clients will open a youth savings account in the name of two young recipient beneficiaries, on average, who live in their household.
- 3.29 In line with the description of the client profile in the section on project beneficiaries, the distribution of the remittance clients accessing the savings products developed under this project is expected to be 60% women to 40% men.

## **I. Project impact<sup>36</sup>**

- 3.30 The project is expected to have the following impact: (i) at least 20% of beneficiary households (2,000 people) will report increases in their spending on housing, health, and/or education after using a savings product developed under the project; (ii) at least 30% of the beneficiaries (3,000 people) will finance at

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<sup>36</sup> These indicators are based on the hypothesis that building up savings will permit the project beneficiaries to make larger investments in things such as housing, health, and education, and will reduce their vulnerability measured by their ability to cope with emergencies.

least one emergency (robbery, illness, death, natural disaster, etc.) through a savings product developed under the project; (iii) the portion of income saved by project beneficiaries will rise by 20% (total savings/total income); and (iv) total savings per beneficiary will rise by 5%.

## **J. Systemic impact**

- 3.31 Working with a network of financial institutions with the solidity of the members of Red Katalysis, it will be shown that by having a holistic strategy targeted to remittance recipients, which includes the development of savings products and appropriate channels for distribution, promotion, and financial education, it will be possible to obtain profitable business models while simultaneously making progress in financial inclusion in the region, where just 39.2% of the population has an account in a formal financial institution.<sup>37</sup>
- 3.32 Red Katalysis is a Central American regional network whose members are financial institutions from El Salvador, Guatemala, Honduras, and Nicaragua. International remittances play an important role in those countries, where they accounted for between 10% and 15% of GDP in 2012.<sup>38</sup> Red Katalysis is well positioned to bring the lessons learned and business strategies tested during this project to El Salvador, Guatemala, and Nicaragua for replication by the other members of its network, creating an exponential impact in Central America.
- 3.33 It is hoped that the learning generated by this project will not simply enable other Latin American and Caribbean institutions and other regions to replicate the model, but will also demonstrate the importance of savings for low-income populations as well as the impact of savings on young remittance beneficiaries. The knowledge generated by this project is expected to contribute to the design of public policies to achieve greater financial inclusion in the region.

## **IV. MONITORING AND SUPERVISION STRATEGY**

- 4.1 **Baseline.** The MIF will contract a consultant to establish a baseline and a monitoring system which will use the indicators in the logical framework as the benchmark. The baseline will compile information on the socioeconomic characteristics of the beneficiaries and their financial behavior (access to and use of financial products and services). The baseline will be broken down by gender and will serve as the point of comparison for compiling information at the end of the intervention to determine changes in the beneficiaries.
- 4.2 **Monitoring.** Red Katalysis will be responsible for putting together and implementing the monitoring system designed when the baseline was prepared

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<sup>37</sup> Demirguc-Kunt, A., and L. Klapper. 2012. "Measuring Financial Inclusion: The Global Findex Database." Policy Research Working Paper 6025, World Bank, Washington, D.C.

<sup>38</sup> Maldonado R., M. Hayem. "Las Remesas a América Latina y el Caribe en 2012: Comportamiento Diferenciado entre Subregiones" [Remittances to Latin America and the Caribbean in 2012: Behavior Differentiated by Subregion]. MIF, IDB. Washington, D.C., 2013.

- and for analyzing relevant information for continuous tracking of project execution and the indicators established in the logical framework (Annex I). As for monitoring reports, Red Katalysis will deliver project status reports (PSRs) to the MIF within 30 days after the end of each six-month period, or more frequently, on the dates determined by the MIF, which will inform Red Katalysis at least 60 days in advance. The PSRs will contain information on project execution, milestones met, the results obtained, and their contribution to project objectives as stated in the logical framework and other operative planning instruments. The PSR will also describe project issues encountered during execution and outline possible solutions. Within 90 days after the end of the execution period, the executing agency will deliver a final PSR to the MIF that highlights results achieved, the sustainability plan, the findings of the final evaluation, and the lessons learned.
- 4.3 The MIF's specialists in Honduras will be responsible for monitoring the project and will have the MIF's support in the evaluations and the exchange of information and lessons learned from similar projects.
- 4.4 **Project evaluation.** Red Katalysis will provide information for the midterm and final project evaluations.
- 4.5 **Midterm evaluation.** Using project resources, the MIF will commission a midterm evaluation once 50% of its resources have been disbursed, or half of the execution period has elapsed, whichever occurs first, to measure: (i) progress in the introduction of the project's new financial products; (ii) progress in project activities; (iii) difficulties encountered and proposed solutions; and (iv) lessons learned and recommendations to improve the project and its replicability. The indicators presented in the logical framework will be kept in mind when measuring these aspects.
- 4.6 **Final evaluation.** A final evaluation, to be commissioned by the MIF, will be performed at the end of the execution period. In addition to the aspects analyzed in the midterm evaluation, it will include an analysis of: (i) the project's immediate impact on the beneficiaries; (ii) the results obtained compared to the initial objectives; (iii) the lessons learned; and (iv) the sustainability of project actions. The final evaluation will perform an exercise similar to the baseline exercise, compiling information on the beneficiaries to examine their situation before and after the intervention. Although the evaluation will not seek to respond to questions of attribution, it will be geared to studying changes in the results and impact indicators and to documenting the lessons learned.
- 4.7 The questions to be answered in the evaluations of this project include the following. Has there been an increase in the percentage of income earmarked for certain areas, such as education, health, or housing by the users of savings products? Do remittance clients who are offered adapted products prefer to save formally rather than informally? Do remittance clients who already have microenterprises and who are offered an adapted savings account save more and

- invest in their businesses? Are remittance clients who use savings accounts less vulnerable to contingencies, measured in function of emergency financing (robbery, illness, death, natural disaster, etc.) on account of an adapted product? When remittance clients use adapted savings products, do they continue with the same consumption patterns? Are there differences in client behavior by gender? In the case of young ‘savers,’ the evaluations will attempt to identify how the impact of savings on this group differs from the impact on the adult population. They will also document variants in the savings products (marketing strategies, incentives, interest rates, ease of withdrawals, etc.) that had to be introduced to covered the needs of this age group.
- 4.8 The indicators measured will include the degree to which the accounts are used by remittance clients, the amounts saved, and their propensity to attain the savings targets set for the planned savings products.
- 4.9 **Closing workshop.** At least three months before the project execution period ends, Red Katalysis will organize a **closing workshop** to be attended by the design team, the supervisory team, and all the beneficiary institutions, with the aim of jointly evaluating the results obtained, identifying additional tasks to guarantee the sustainability of project activities, and identifying and disseminating the lessons learned and best practices. The information generated by the evaluations mentioned in this section will form part of the knowledge to be shared with the different project audiences through the communication strategy to be financed with funds from the Remittances and Savings Program (RG-M1216).

## V. COST AND FINANCING

- 5.1 The project will cost a total of US\$644,940, with US\$279,583 (43.35%) to be contributed by the MIF, US\$170,000 by the Partnership Trust Fund for Poverty Reduction in Latin America (AUS) (26.36%), and US\$195,357 (30.29%) by the counterpart. The execution period will be 36 months, and the disbursement period 42 months.

**Cost Table (US\$)**

<b>Components</b>	<b>MIF</b>	<b>AUS</b>	<b>Local counterpart</b>	<b>Total</b>
Component 1. Technical assistance for microfinance operators in managing a savings portfolio and effectively capturing remittances	97,365	59,450	43,135	199,950
Component 2. Development of a distribution channel through correspondent agents	103,915	63,463	76,562	243,940
Component 3. Dissemination of project experiences			18,000	18,000
Executing agency/administration	55,671	33,719	48,660	138,050
Baseline, monitoring, and evaluation (midterm and final)	13,207	7,792	9,000	30,000
Audits	3,162	1,838		5,000
Contingencies	6,262	3,738		10,000
<b>Total</b>	<b>279,583</b>	<b>170,000</b>	<b>195,357</b>	<b>644,940</b>

## **VI. EXECUTING AGENCY**

### **A. Executing agency**

- 6.1 The organization Red Katalysis will execute this project and sign the contract with the Bank. Red Katalysis is a nonprofit association with 23 members devoted to offering financial services for micro and small enterprises in Central America: Guatemala (4), El Salvador (2), Honduras (11), and Nicaragua (6). It was founded on 26 April 2002 and is recognized by the Honduran government as a mutual benefit association under Resolution 465-2002 issued by the then Department of State for the Interior and Justice, today the Department of the Interior and Population. As of June 2013, Red Katalysis’s members had 213,526 clients and a loan portfolio of US\$208.5 million. Red Katalysis itself has an annual budget of US\$450,000.
- 6.2 Red Katalysis’s mission is to “contribute to the comprehensive and sustainable development of the suppliers of financial products and services for people in the urban and rural areas of Central America” and its vision is “to be an internationally-recognized specialized microfinance network in Central America that provides innovative and sustainable financial products and services for low-income populations.” All the network’s members share this mission and vision.
- 6.3 Red Katalysis provides training, business advisory, and research services for the microfinance sector by executing programs that foster the development and empowerment of its member organizations and promote innovative financial products and services to improve profitability, thereby contributing to job creation, expanding coverage, and combating poverty, in urban and rural areas.

- 6.4 Red Katalysis's general assembly is its senior authority and expresses the collective wishes of its members. It is composed of the founding partners and currently consists of the 23 member microfinance institutions.
- 6.5 Red Katalysis's General Manager is Raúl Sánchez. Red Katalysis is guided by a board of directors whose members are named by the general assembly to serve for two-year terms. At the annual meeting held last 8 March 2013 in the city of Luxemburg, the following board of directors was unanimously elected for the period 2013-2015:
- President: Eloisa Senovia Acosta Valdez, General Manager, Familia y Medio Ambiente OPDF, Honduras
  - Vice President: Santa Isabel Santelí de Euceda, ODEF Financiera S.A., Honduras
  - Secretary: Mauricio Rodezno Fuentes, Chair of the Oversight Board, Hermandad de Honduras OPDF, Honduras
  - Treasurer: Carlos Antonio Spiegeler Castañeda, Guatemala
  - Member I: Zobeida Hernández, Executive Director, PRODESA, Nicaragua
  - Member II: Carlos Felipe Tzoc Rosales, General Manager, Asociación de Desarrollo Integral Rural ASDIR, Guatemala
  - Member III: María de los Ángeles Pérez Icaza, Nicaragua
- 6.6 Red Katalysis also has an oversight board, whose members are appointed by the general assembly for a one-year term. One of the responsibilities of this board is to conduct or commission audits and supervisory activities at least once a year of the economic and financial aspects of the organization and of the standards and values that guarantee the principles of collegiality. The annual meeting of 8 March 2013 appointed the following oversight board for the period:
- Chair: José René Banegas Vides, General Manager, PILARH OPDF, Honduras
  - Secretary: Wilson Dagoberto Salmeron Chávez, AMC de R.L., El Salvador
  - Member I: Marcos Antonio Hernández Esquivel, Executive Director, Microfinanciera León 2000 IMF, S.A., Nicaragua
- 6.7 The MIF began its support of Red Katalysis in 2002, through a nonreimbursable technical cooperation project for US\$500,000 (ATN/ME-8046-HO). This first project enabled Red Katalysis to support microfinance institutions in establishing savings mobilization services for the first time, targeted to their microentrepreneur clients.
- 6.8 In 2008, Red Katalysis benefitted from another MIF nonreimbursable technical cooperation project (ATN/ME-10836-HO). It centered on the development of business credit products for youths. Through the project, Red Katalysis acquired

the tools and know how necessary to provide financial services for youths in Honduras.

## VII. PROJECT RISKS

- 7.1 The following potential risks have been identified that could affect the results of the project as they relate to increased access to savings for international remittance clients in Honduras. (i) Reduction in the flows of remittances into Honduras owing to deterioration in the United States' economy and/or an increase in the number of Honduran migrants in the United States who return to their country of origin. **Mitigation measures:** Monitoring the volume of remittance payments handled by the microfinance institutions and ongoing analysis of the market so that, if necessary, products can be adapted to the changes. (ii) Citizen insecurity in the country limits the expansion of coverage by microfinance institutions through the correspondent agents. **Mitigation measures:** When entering into contracts with agents, the necessary precautions will be taken including, in terms of location, how well the agent is known in the community, theft insurance, etc. (iii) Changes in the policies and expansion plans of the microfinance institutions limit the investments required under the project. **Mitigation measures:** Ongoing communication with the directors of each microfinance institution and the involvement of each institution in decision making related to the project. (iv) Changes in the contract between Western Union and the microfinance institutions affect the volumes of remittances they capture in the project period. **Mitigation measures:** Keep information on a diversified group of remittance companies to be able to establish new partnerships if necessary. (v) Possible lack of demand for savings products means that the network of agents fails to attract the expected number of clients. **Mitigation measures:** The agents offer other products and services in addition to remittance payments and savings deposits.

## VIII. ENVIRONMENTAL AND SOCIAL IMPACT

- 8.1 This operation has been preevaluated and classified in accordance with the IDB's Environment and Safeguards Compliance Policy (Operational Policy OP-703). Since the impacts and risks are limited, the proposed classification for the project is category "C."

## IX. FULFILLMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

- 9.1 **Disbursement by results and fiduciary arrangements.** The executing agency will commit to the MIF's standard arrangements relating to results-based disbursements, procurement, and financial management specified in Annex 7.

- 9.2 **Disbursement by results.** Project disbursements will be contingent upon the achievement of milestones, which will be agreed between Red Katalysis and the MIF along with their means of verification. Achievement of milestones does not exempt Red Katalysis from responsibility for compliance with the logical framework indicators and the project objectives.
- 9.3 Under risk- and performance-based project management modality, the amounts of the disbursements will be determined in accordance with the project's liquidity requirements for a maximum period of six months. These needs will be agreed on by the MIF and Red Katalysis and will reflect the activities and costs programmed in the annual planning exercise. The first disbursement will be contingent on meeting milestone 0 (conditions precedent) and the successive disbursements will be made provided the following two conditions are met: (i) verification by the MIF that the milestones have been met as agreed in the annual work plan; and (ii) the executing agency has provided supporting documentation for 80% of the cumulative advances.
- 9.4 **Procurement.** Procurement of goods and consulting contracts will be governed by the IDB's procurement policies (documents GN-2349-9 and GN-2350-9).
- 9.5 Since the diagnostic needs assessment (DNA) of the executing agency produced a **medium** level of need/risk, the project team has determined, as establishing in Appendix 4 of those policies, that the private-sector methods established in Annex I of the "Operating guidelines on procurement for nonreimbursable technical cooperation operations" (document OP-639) will be used for this private-sector institution. In addition, project contracts and procurements will be subject to **ex post** review with **six-monthly** frequency. Using project funds, IDB/MIF will contract a consultant to provide training in aspects of procurement that require strengthening, as identified in the DNA. Prior to making a start on project contracting and procurements, the executing agency will submit the procurement plan to the MIF for approval. The plan will be updated annually or whenever a change occurs in procurement methods and/or the goods or services to be procured.
- 9.6 **Financial management and supervision.** The executing agency will establish and assume responsibility for maintaining effective financial accounts, internal control mechanisms, and record-keeping systems for the project, consistent with IDB/MIF financial management rules and policies. Since the DNA determined a medium level of need/risk for the financial management section, the documentation supporting disbursements will be subject to ex post review with six-monthly frequency. Using funds from the MIF contribution, the IDB/MIF will contract a consultant to train the executing agency in those aspects of financial management that require strengthening, identified in the DNA.
- 9.7 The IDB/MIF will engage independent auditors to perform the ex post reviews of procurement processes and supporting documents for disbursements. The scope of the ex post reviews will include an analysis of the financial reports that the



executing agency will prepare annually as part of its financial management. The cost of this contract will be financed from the MIF contribution, in accordance with Bank procedures.

- 9.8 During the project, the frequency of the ex post reviews of procurement processes and supporting documents for disbursements may be modified by the MIF based on the findings of the ex post reviews by the external auditors, and additional financial reports may be required.

## **X. ACCESS TO INFORMATION**

- 10.1 **Access to information.** The information related to this project is not classified as confidential under the Bank's Access to Information Policy.

**LOGICAL FRAMEWORK**  
**REMITTANCES AND SAVINGS: VEHICLES FOR POVERTY REDUCTION (HO-M1045) (HO-T1206)**

IMPACT							RISKS
To reduce the vulnerability of remittance clients in Honduras and improve their means of subsistence.	<b>Indicator 1</b>	<i>Baseline</i>	<i>Interim</i>	<i>Interim</i>	<i>Interim</i>	<i>Target</i>	Reduction in the flow of remittances to Honduras owing to deterioration in the United States economy and/or an increase in the number of Honduran migrants in the United States who return to their country of origin.
	Number of beneficiary clients who report increases in their spending on housing, health, or education					2,000	
	<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 12</i>	<i>Month 18</i>	<i>Month 24</i>	<i>Month 36</i>	
	Number of beneficiary clients with accounts who report increases in their spending on housing, health, or education, after using a savings product linked to remittances	<i>Source: Baseline and final evaluation and/or ex post evaluation</i>					
	<b>Indicator 2</b>	<i>Baseline</i>	<i>Interim</i>	<i>Interim</i>	<i>Interim</i>	<i>Target</i>	
	Number of beneficiary clients who will finance at least one emergency in the final year					3,000	
	<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 12</i>	<i>Month 18</i>	<i>Month 24</i>	<i>Month 36</i>	
Number of beneficiary clients who will finance at least one emergency (robbery, illness, death, natural disaster, etc.) through a savings product linked to remittances	<i>Source: Baseline and final evaluation and/or ex post evaluation</i>						
	<b>Indicator 3</b>	<i>Baseline</i>	<i>Interim</i>	<i>Interim</i>	<i>Interim</i>	<i>Target</i>	
	Increase in the portion of income saved by beneficiaries (total savings/total income)					20%	
	<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 12</i>	<i>Month 18</i>	<i>Month 24</i>	<i>Month 36</i>	
	Growth in the savings/income ratio between the baseline and the end of the project	<i>Source: Baseline and final evaluation and/or ex post evaluation</i>					
	<b>Indicator 4</b>	<i>Baseline</i>	<i>Interim</i>	<i>Interim</i>	<i>Interim</i>	<i>Target</i>	
	Savings growth rate					5%	
	<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 12</i>	<i>Month 18</i>	<i>Month 24</i>	<i>Month 36</i>	
	Annual growth rate	<i>Source: Microfinance institution information systems</i>					

OUTCOMES							RISKS
Increased access to and use of savings by international remittance clients in Honduras through financial products and services tailored to this population.	<b>Indicator 1</b>	<i>Baseline</i>	<i>Interim</i>	<i>Interim</i>	<i>Interim</i>	<i>Target</i>	<p>Citizen insecurity in the country limits the expansion of coverage by microfinance institutions through correspondent agents.</p> <p>Changes in the policies and expansion plans of the microfinance institutions limit the investments required under the project.</p> <p>Changes in the contract between Western Union and the microfinance institutions affect the volumes of remittances they capture in the period established in the project.</p> <p>Possible lack of demand for savings products means that the network of agents fails to attract the expected number of clients.</p>
	Number of remittance clients who open a savings account				5,000	14,000 (4,000 adult women, 6,000 adult males, 1,600 young men, 2,400 young women)	
	<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 12</i>	<i>Month 18</i>	<i>Month 24</i>	<i>Month 36</i>	
	Number of remittance clients who open an account developed under the project	<i>Source: Microfinance institution information systems</i>					
	<b>Indicator 2</b>	<i>Baseline</i>	<i>Interim</i>	<i>Interim</i>	<i>Interim</i>	<i>Target</i>	
	Number of remittance clients who actively use a savings account				1,500	4,200	
	<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 12</i>	<i>Month 18</i>	<i>Month 24</i>	<i>Month 36</i>	
	Number of remittance clients who actively use a savings account as a result of the project. 'Using' a savings product means making a minimum of one deposit a month.	<i>Source: Microfinance institution information systems</i>					
	<b>Indicator 3</b>	<i>Baseline</i>	<i>Interim</i>	<i>Interim</i>	<i>Interim</i>	<i>Target</i>	
	Number of clients who open a planned savings account	0	0	2,000	5,000	10,000	
<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 6</i>	<i>Month 18</i>	<i>Month 24</i>	<i>Month 36</i>		
Number of remittance recipients who open a planned savings account designed under this project	<i>Source: Financial statements of the institutions, client savings books</i>						

<b>Indicator 4</b>	<i>Baseline</i>	<i>Interim</i>	<i>Interim</i>	<i>Interim</i>	<i>Target</i>
Number of clients who open a youth savings account				2,000	4,000
<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 6</i>	<i>Month 18</i>	<i>Month 24</i>	<i>Month 36</i>
Number of remittance recipients who open a youth savings account designed under this project <i>'Youths' are persons between the ages of 12-24</i>	<i>Source: Financial statements of the institutions, client savings books</i>				
<b>Indicator 5</b>	<i>Baseline</i>	<i>Interim</i>	<i>Interim</i>	<i>Interim</i>	<i>Target</i>
Number of remittance clients who open a liquid savings account designed under this project					600
<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 6</i>	<i>Month 18</i>	<i>Month 24</i>	<i>Month 36</i>
Remittance recipients who open a liquid savings account designed under this project	<i>Source: Financial statements of the institutions, client savings books</i>				
<b>Indicator 6</b>	<i>Baseline</i>	<i>Interim</i>	<i>Interim</i>	<i>Interim</i>	<i>Target</i>
Number of previously unbanked clients who open a savings account for the first time				1,000	2,800
<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 12</i>	<i>Month 18</i>	<i>Month 24</i>	<i>Month 36</i>
Number of previously unbanked remittance clients who open a savings account for the first time as a result of this project	<i>Source: Microfinance institution information systems, baseline, final evaluation</i>				
<b>Indicator 7</b>	<i>Baseline</i>	<i>Interim</i>	<i>Interim</i>	<i>Interim</i>	<i>Target</i>
Number of clients who regularly conduct financial transactions with a correspondent agent				1,200	6,000
<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 12</i>	<i>Month 18</i>	<i>Month 24</i>	<i>Month 36</i>
Number of clients of the institutions participating in the project who conduct at least one financial transaction a month with a correspondent agent operating as a result of this project	<i>Source: Quarterly reports of the MFIs to verify the use made of the correspondent agents</i>				

	<b>Indicator 8</b>	<i>Baseline</i>	<i>Interim</i>	<i>Interim</i>	<i>Interim</i>	<i>Target</i>	
	Number of remittance clients and users of a savings product who conduct a transaction at least once a month with a correspondent agent operating as a result of this project				600	2,000	
	<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 12</i>	<i>Month 18</i>	<i>Month 24</i>	<i>Month 36</i>	
	Number of remittance clients and users of a savings product developed by the project who make regular use (a minimum of one monthly transaction) of the services of a correspondent agent established as a result of this project	<i>Source: Microfinance institution information systems</i>					
<b>Component 1</b>							<b>Risks</b>
Technical assistance for microfinance operators in managing a savings portfolio and effectively capturing remittances	<b>Indicator 1</b>	<i>Baseline</i>	<i>Interim</i>	<i>Interim</i>	<i>Interim</i>	<i>Target</i>	The lack of MFI counterpart resources undermines the project's development objectives.
	Market study conducted	0	1				
	<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 6</i>	<i>Month 12</i>	<i>Month 24</i>	<i>Month 36</i>	
	Identification of the project's three intervention niches (west, north, and center-east zones), after a country-wide analysis of the potential market and the flows of remittances sent by migrants living in the United States	<i>Source: Survey conducted and the study received and approved by Red Katalysis in function of the terms of reference</i>					
	<b>Indicator 2</b>	<i>Baseline</i>	<i>Interim</i>	<i>Interim</i>	<i>Interim</i>	<i>Target</i>	
	Savings products developed	0	0	1			
	<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 6</i>	<i>Month 12</i>	<i>Month 24</i>	<i>Month 36</i>	
		<i>Source: Manual for three products</i>					
	<b>Indicator 3</b>	<i>Baseline</i>	<i>Interim</i>	<i>Interim</i>	<i>Interim</i>	<i>Target</i>	
	Financial education methodology updated	0	1				
<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 6</i>	<i>Month 12</i>	<i>Month 24</i>	<i>Month 36</i>		
	<i>Source: Updated financial education manual</i>						
<b>Indicator 4</b>	<i>Baseline</i>	<i>Interim</i>	<i>Interim</i>	<i>Interim</i>	<i>Target</i>		
Financial education methodology implemented	0	0	0	0	1		
<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 6</i>	<i>Month 12</i>	<i>Month 24</i>	<i>Month 36</i>		
	<i>Source: Reports on the results of events held</i>						

	<b>Indicator 5</b>	<i>Baseline</i>	<i>Interim</i>	<i>Interim</i>	<i>Interim</i>	<i>Target</i>		
	Number of financial institutions involved in remittance payments for the first time	0	1	2				
	<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 6</i>	<i>Month 12</i>	<i>Month 24</i>	<i>Month 36</i>		
	Not all the institutions participating in this project pay remittances at present.	<b>Source:</b> <i>Agreements between the remittance company and the financial institutions</i>						
	<b>Indicator 6</b>	<i>Baseline</i>	<i>Interim</i>	<i>Interim</i>	<i>Interim</i>	<i>Target</i>		
	Number of clients educated	0	0	4,290	8,580	13,000		
	<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 6</i>	<i>Month 12</i>	<i>Month 24</i>	<i>Month 36</i>		
	Number of remittance clients who participate in person in at least one savings education and sensitization activity	<b>Source:</b> <i>Attendance lists</i>						
<b>Component 2</b>							<b>Risks</b>	
Development of a distribution channel through correspondent agents	<b>Indicator 1</b>	<i>Baseline</i>	<i>Interim</i>	<i>Interim</i>	<i>Interim</i>	<i>Target</i>		
	Feasibility study conducted	0	1					
	<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 6</i>	<i>Month 12</i>	<i>Month 24</i>	<i>Month 36</i>		
		<b>Source:</b> <i>Feasibility study</i>						
	<b>Indicator 2</b>							
	Work plan designed	0	1					
	<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 6</i>	<i>Month 12</i>	<i>Month 24</i>	<i>Month 36</i>		
		<b>Source:</b> <i>Work plan</i>						
	<b>Indicator 3</b>							
	Technological architecture designed	0	0	0	1			
	<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 6</i>	<i>Month 12</i>	<i>Month 24</i>	<i>Month 36</i>		
		<b>Source:</b> <i>Report on the technological architecture</i>						
	<b>Indicator 4</b>							
	Business plans designed	0	0	6				
<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 6</i>	<i>Month 12</i>	<i>Month 24</i>	<i>Month 36</i>			
	<b>Source:</b> <i>Business plan</i>							

	<b>Indicator 5</b>	<i>Baseline</i>	<i>Interim</i>	<i>Interim</i>	<i>Interim</i>	<i>Target</i>	
	Number of financial institutions using a correspondent agent business model			6			
	<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 6</i>	<i>Month 18</i>	<i>Month 24</i>	<i>Month 36</i>	
	Number of institutions supported by the project that adopt a business model involving a network of correspondent agents	<b>Source:</b> <i>Business plan of each financial institution, policy and procedures manual, educational materials for financial institutions</i>					
	<b>Indicator 6</b>	<i>Baseline</i>	<i>Interim</i>	<i>Interim</i>	<i>Interim</i>	<i>Target</i>	
	Number of businesses operating as correspondent agents				24	80	
	<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 6</i>	<i>Month 18</i>	<i>Month 24</i>	<i>Month 36</i>	
	Number of businesses (neighborhood shops, pharmacies, general stores, etc.) that operate as correspondent agents	<b>Source:</b> <i>Agreements with businesses, reports on transactions</i>					
<b>Component 3</b>							<b>Risks</b>
Dissemination of project experiences	<b>Indicator 1</b>	<i>Baseline</i>	<i>Interim</i>	<i>Interim</i>	<i>Interim</i>	<i>Target</i>	
	Number of participants in the workshop to exchange experiences					100	
	<i>Formula/definition</i>	<i>Month 0</i>	<i>Month 6</i>	<i>Month 18</i>	<i>Month 24</i>	<i>Month 36</i>	
	Number of employees of the project's financial institutions who participate in a workshop to exchange experiences and disseminate lessons learned	<b>Source:</b> <i>Lists of workshop attendants, workshop evaluations</i>					

**BUDGET SUMMARY**  
**REMITTANCES AND SAVINGS: VEHICLES FOR POVERTY REDUCTION (HO-M1045) (HO-T1206)**

	Total	MIF	AUS	Local counterpart		Total counterpart	%
				In kind	In cash		
<b>Component 1: Technical assistance for microfinance operators in managing a savings portfolio and effectively capturing remittances</b>	<b>199,950</b>	<b>97,365</b>	<b>59,450</b>	<b>4,230</b>	<b>38,905</b>	<b>43,135</b>	<b>22%</b>
<b>1.1 Studies and research</b>	<b>67,500</b>	<b>41,865.26</b>	<b>25,634.74</b>				<b>0%</b>
1.1.1 Consulting services to conduct a study on the transnational market							0%
1.1.1.1 Regional study on the remittance market in Honduras (three areas—west, north, center-east)	42,500	26,354.42	16,145.58				0%
1.1.1.2 Survey of remittance senders in the United States (migrant profiles, location, etc. in three regions)	20,000	12,405.42	7,594.58				0%
1.1.2 Meeting with participating institutions to share the results of the market study and survey of remittance senders	5,000	3,105.42	1,894.58				0%
<b>1.2 Development of at least three savings products</b>	<b>72,450</b>	<b>30,688.92</b>	<b>18,626.08</b>	<b>4,230</b>	<b>18,905</b>	<b>23,135</b>	<b>32%</b>
1.2.1 Local internship (PILARH and Credisol)	2,000				2,000	2,000	100%
1.2.2 Update and implementation of a savings education methodology (7 institutions)							30%
1.2.2.1 Technical committee to review the materials developed and adjust the methodology	2,000	873.42	526.58		600	600	30%
1.2.2.2 Dissemination of contents using different means	10,000	4,345.41	2,654.59		3,000	3,000	30%
1.2.2.3 Holding of in-person financial education events (through partnerships with education centers)	13,000	5,647.41	3,452.59	1,950	1,950	3,900	30%
1.2.3 Design of at least one planned savings product per microregion (6 institutions)							
1.2.3.1 Consultant's contract	6,750	2,934.91	1,790.09		2,025	2,025	30%
1.2.3.2 Consultant's travel (international and national)	1,300	569.61	340.39		390	390	30%



	Total	MIF	AUS	Local counterpart		Total counterpart	%
				In kind	In cash		
1.2.3.3 Consultant's per diems (accommodation, meals)	750	330.91	194.09		225	225	30%
1.2.3.4 Training sessions (rooms, meals)	3,000	1,307.41	792.59	900		900	30%
1.2.3.5 Reproduction of materials	500	222.41	127.59		150	150	30%
1.2.3.6 Technical support	450	200.71	114.29		135	135	30%
1.2.4 Design of at least one youth savings product per microregion (6 institutions)							
1.2.4.1 Consultant's contract	10,000	4,345.41	2,654.59		3,000	3,000	30%
1.2.4.2 Consultant's travel (international and national)	1,300	569.61	340.39		390	390	30%
1.2.4.3 Consultant's per diems (accommodation, meals)	750	330.91	194.09		225	225	30%
1.2.4.4 Training sessions (rooms, meals)	3,000	1,307.41	792.59	900		900	30%
1.2.4.5 Reproduction of materials	500	222.41	127.59		150	150	30%
1.2.4.6 Technical support	450	200.71	114.29		135	135	30%
1.2.5 Mounting of a savings program in one new regulated entity (1 institution)							
1.2.5.1 Consultant's contract	9,000	3,911.41	2,388.59		2,700	2,700	30%
1.2.5.2 Consultant's travel (international and national)	2,600	1,133.81	686.19		780	780	30%
1.2.5.3 Consultant's per diems (accommodation, meals)	1,500	656.41	393.59		450	450	30%
1.2.5.4 Training sessions (rooms, meals)	1,600	699.81	420.19	480		480	30%
1.2.5.5 Reproduction of materials	500	222.41	127.59		150	150	30%
1.2.5.6 Technical support	1,500	656.41	393.59		450	450	30%
<b>1.3 Publicity campaigns at the 7 participating institutions to promote the products designed</b>	<b>60,000</b>	<b>24,810.82</b>	<b>15,189.18</b>		<b>20,000</b>	<b>20,000</b>	<b>33%</b>
1.3.1 Design of a publicity campaign by a marketing firm	20,000	12,405.41	7,594.59				0%
1.3.2 Implementation of the publicity campaign to promote products	40,000	12,405.41	7,594.59		20,000	20,000	50%
<b>Component 2: Development of a distribution channel through correspondent agents</b>	<b>243,940</b>	<b>103,915</b>	<b>63,463</b>	<b>10,525</b>	<b>66,037</b>	<b>76,562</b>	<b>31%</b>
<b>2.1 Design of a business model using correspondent agents</b>	<b>132,940</b>	<b>56,180.72</b>	<b>34,297.28</b>	<b>2,775</b>	<b>39,687</b>	<b>42,462</b>	<b>32%</b>
2.1.1 Exchange with another institution in the region to share experiences and select the model (6 institutions participate)	13,440	5,847.02	3,560.98		4,032	4,032	30%

	Total	MIF	AUS	Local counterpart		Total counterpart	%
				In kind	In cash		
2.1.2 Performance of a feasibility study and design of a work plan	18,000	9,388.46	5,731.54		2,880	2,880	16%
2.1.3 Design of the technological architecture and installation of equipment for the correspondent agents	80,000	31,014.06	18,985.94		30,000	30,000	38%
2.1.4 Design of a manual of policies and procedures and control of the correspondent agents	3,000	1,874.06	1,125.94				0%
2.1.5 Design of a business plan for each institution (6 institutions)	6,500	2,835.06	1,714.94	975	975	1,950	30%
2.1.6 Design of educational and training materials for the financial institutions	12,000	5,222.06	3,177.94	1,800	1,800	3,600	30%
<b>2.2 Implementation of the business model using correspondent agents</b>	<b>111,000</b>	<b>47,734.24</b>	<b>29,165.76</b>	<b>7,750</b>	<b>26,350</b>	<b>34,100</b>	<b>31%</b>
2.2.1 Selection and signature of agreements with the correspondent agents (80 businesses)	6,000	-	-	3,000	3,000	6,000	100%
2.2.2 Design and reproduction of educational materials for the participating businesses (80 businesses)	15,000	6,524.06	3,975.94	2,250	2,250	4,500	30%
2.2.2 Awareness and training on the operational and technical levels for the employees of the correspondent agents (80 businesses)	18,000	11,174.06	6,825.94				0%
2.2.3 Design and implementation of the promotion strategy	62,000	26,922.06	16,477.94		18,600	18,600	30%
2.2.4 Monitoring of implementation in the 80 correspondent agents	10,000	3,114.06	1,885.94	2,500	2,500	5,000	50%
<b>Component 3: Dissemination of project experiences</b>	<b>18,000</b>	<b>-</b>	<b>-</b>		<b>18,000</b>	<b>18,000</b>	<b>100%</b>
<b>3.1 Systematization of at least two experiences of the institutions and of the process of developing a product</b>	<b>14,000</b>	<b>-</b>	<b>-</b>		<b>14,000</b>	<b>14,000</b>	<b>14,000</b>
3.1.1 Preparation of a document by a consultant	12,000	-	-		12,000	12,000	100%
3.1.2 Focus groups and compilation of information (meals, rooms, materials)	2,000	-	-		2,000	2,000	100%

	Total	MIF	AUS	Local counterpart		Total counterpart	%
				In kind	In cash		
<b>3.2 Socialization of experiences among the participating institutions</b>	<b>4,000</b>	-	-		<b>4,000</b>	<b>4,000</b>	<b>100%</b>
3.2.1 Workshops for the MFIs to exchange the experiences in implementing the project and dissemination of the lessons learned at the end of the project	4,000	-	-		4,000	4,000	100%
<b>Component 4: Coordination, monitoring, evaluation, and audits</b>	<b>183,050</b>	<b>78,303</b>	<b>47,087</b>	<b>47,400</b>	<b>10,260</b>	<b>57,660</b>	<b>31%</b>
<b>4.1 Project management</b>	<b>138,050</b>	<b>55,671.24</b>	<b>33,718.76</b>	<b>42,900</b>	<b>5,760</b>	<b>48,660</b>	<b>35%</b>
4.1.1 Project coordinator							
4.1.1.1 Contracting the coordinator	67,500	41,912.36	25,587.64				0%
4.1.1.3 Project supervision costs	19,200	8,395.16	5,044.84		5,760	5,760	30%
4.1.2 Accounting and financial administration							
4.1.2.1 Contracting an administrative and accounting assistant (half-time)	7,200	4,526.36	2,673.64				0%
4.1.2.2 Administrative and accounting system	1,250	837.36	412.64				0%
4.1.3 Other administrative costs							
4.1.3.1 Electricity	3,900	-	-	3,900		3,900	100%
4.1.3.2 Telephone, Internet	3,000	-	-	3,000		3,000	100%
4.1.3.3 Stationary	3,000	-	-	3,000		3,000	100%
4.1.4 Strategic managerial supervision	33,000	-	-	33,000		33,000	100%
<b>4.2 Evaluations</b>	<b>45,000</b>	<b>22,631.80</b>	<b>13,368.20</b>	<b>4,500</b>	<b>4,500</b>	<b>9,000</b>	<b>20%</b>
4.2.1 Baseline and results indicators monitoring system (consulting services)	15,000	6,572.36	3,927.64	2,250	2,250	4,500	30%
4.2.2 Midterm (consulting services and travel)	7,000	3,100.36	1,799.64	1,050	1,050	2,100	30%
4.2.3 Final (consulting services and travel)	8,000	3,534.36	2,065.64	1,200	1,200	2,400	30%
<b>4.3 Audits</b>	<b>5,000</b>	<b>3,162.36</b>	<b>1,837.64</b>				<b>0%</b>
<b>4.4 Contingencies</b>	<b>10,000</b>	<b>6,262.36</b>	<b>3,737.64</b>				<b>0%</b>
<b>TOTAL</b>	<b>644,940</b>	<b>279,583</b>	<b>170,000</b>	<b>62,155</b>	<b>133,202</b>	<b>195,357</b>	<b>30%</b>

# QED - (Quality for Effectiveness in Development)

Memo de Donantes

April 17, 2014

## SECTION 1: PROJECT SUMMARY

<b>PROJECT NAME:</b> Remittances and Savings: Vehicles to Contribute to Poverty Reduction	Project Number: HO-M1045
<b>DESIGN TEAM LEADER:</b> Rebecca Rouse	<b>DEU OFFICER:</b> GUTIERREZ, CLAUDIA VERONICA

## SECTION 2: QED DETAILS

1. MIF Strategic Development Objectives Dimension	<b>7.6</b>
<b>Relation to the Agenda's Objectives</b>	
1.1. There is a causal relation between project objective and the agenda's objective.	2
1.2. The project has potential for scalability after execution.	2
<b>Specific benefits for women</b>	
1.3. The project has specific benefits for women.	1
<b>Specific benefits for the environment</b>	
1.4. The project has specific benefits for the environment (GHG reduction, water savings, conservation, biodiversity).	0
<b>Relation to the MIF's Objectives</b>	
<b>Target 1: Private Sector Development</b>	
1.5. Innovation	2
1.6. Creating Markets and Adding Market Players	1
1.7. Entrepreneurship	1
1.8. Building Private Institutional Capacity	2
1.9. Technology & Human Capital	2
1.10. Higher Standards of Corporate Governance	0
1.11. Strengthening Legal and Regulatory Framework	0
1.12. Development of financial institutions and financial markets	2
1.13. Improved access to basic services	0
<b>Target 2: Targeting the poor</b>	
1.14. The project will be implemented in a region with a high incidence of poverty (poverty map resources <a href="http://mif.iadb.org/poverty/home">http://mif.iadb.org/poverty/home</a> ) or target beneficiaries from the poor strata	2
2. Additionality Dimension	<b>9.0</b>
2.1. MIF non-financial contribution is critical for developing the project.	2
2.2. MIF financial contribution is critical for developing the project (there is little or no alternative funding)	2
2.3. MIF participation will mobilize counterpart funding that otherwise won't be available.	1
2.4. MIF participation will likely improve project structure by providing technical advice, institutional credibility and/or lessons learned/best practices from other MIF projects	2
2.5. MIF participation will likely strengthen the institution(s) directly involved with the project	2
3. Project Diagnosis Dimension	<b>9.5</b>
<b>Diagnostic of the problem</b>	
3.1. The problem or need that the project attempts to address has been clearly identified in consultation with stakeholders (borrowers, executing agencies, male and female beneficiaries, other interested parties)	2
3.2. The causes of the problem, their interrelationships and magnitudes are clearly identified	2
<b>Proposed Solution</b>	
3.3. The proposed solution is logically connected and related to the magnitude of the	2

problem		
3.4. Relevant lessons learned from previous similar interventions in this country or other country (PSRs, ASRs, mid-term evaluations, final evaluations or other evaluation document) are taken into consideration	2	
3.5. Evidence is provided as to the effectiveness of the intervention proposed based on experience in other settings, or previous experience in the same setting	1	
<b>4. Logical Framework Quality Dimension</b>		<b>10.0</b>
4.1. The desired impact of the project is clearly stated in the logic framework	2	
4.2. The result of the project contributes to the achievement of the impact and is clearly stated in the logic framework	2	
4.3. The components contribute to the achievement of the results and include the necessary outputs to attain the purpose	2	
4.4. A baseline value or a predetermined starting point has been identified for each relevant indicator, as well as intermediate values, target values and sources of data or a plan for collecting them	2	
4.5. Indicators are SMART (Specific, Measurable, Achievable, Realistic and Time-Bound)	2	
4.6. The source, or means for collecting data (for outcomes, outputs and activities) actually exist, either with the executing agency or in any other external or internal source	2	
4.7. The risks for the execution of the project and the achievement of the objectives have been identified	2	
<b>5. Risks Dimension</b>		<b>10.0</b>
5.1. The experience and the skills of the executing agency have been evaluated	2	
5.2. The risks for the execution of the project and the achievement of the objectives have been identified	2	
5.3. All risks have identified proper mitigation measures which can be tracked during project implementation	2	
5.4. Compliance with IDB environmental/social policies	2	
<b>6. Monitoring &amp; Evaluation, and Strategic Communication Dimension</b>		<b>8.3</b>
<b>Monitoring &amp; Evaluation</b>		
6.1. Monitoring mechanisms have been planned and budgeted	2	
6.2. The project has an evaluation plan	1	
6.3. The evaluation questions are defined	2	
6.4. The evaluation type/ methodology is defined	1	
6.5. Results potential	2	
6.6. Impact Potential	2	
<b>Knowledge Sharing &amp; Communication</b>		
6.7. The audiences and the desired action of the audiences as a result of the communication strategy have been identified	2	
6.8. The message and the communication channels that the communication strategy will convey are clearly defined and appropriated according to the different audiences identified	2	
6.9. The knowledge sharing products are defined and appropriate to the different audiences	1	
		<b>TOTAL</b>
		<b>9.1</b>

**REMITTANCES AND SAVINGS: VEHICLES TO CONTRIBUTE TO POVERTY  
REDUCTION  
HO-T1206**

**CERTIFICATION**

I hereby certify that this operation was approved for financing under the Partnership Trust Fund for Poverty Reduction in Latin America with the Australian Agency for International Development (AUS) through a communication dated May 13, 2014 and signed by Jane de Souza Silva (ORP/GCM). Also, I certify that resources from said fund are available for up to US\$170,000 in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of four (4) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount, may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.

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Sonia M. Rivera  
Chief  
Grants and Cofinancing Management Unit  
ORP/GCM

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Date