

INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

MEXICO

CREATING A SAVINGS CULTURE AMONG MINORS

(ME-M1098)

DONORS MEMORANDUM

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CONTENTS

EXECUTIVE SUMMARY

| | | |
|-------|---|----|
| I. | BACKGROUND AND RATIONALE | 1 |
| A. | On the program: Linking Social Protection Payments to Savings (RG-M1198). | 1 |
| B. | The project: Creating a Savings Culture among Minors (ME-M1098) | 2 |
| C. | Project beneficiaries | 7 |
| D. | Contribution to the MIF mandate, Access Framework, and IDB country strategy | 7 |
| II. | PROJECT OBJECTIVES AND COMPONENTS | 8 |
| A. | Objectives | 8 |
| B. | Description of the model/solution/intervention | 8 |
| C. | Components | 9 |
| D. | Project governance and execution arrangements | 11 |
| E. | Sustainability | 12 |
| F. | Lessons learned from the MIF or other institutions in the project's design | 12 |
| G. | MIF additionality | 13 |
| H. | Project outcome | 14 |
| I. | Project impact | 14 |
| J. | Systemic impact | 14 |
| III. | MONITORING AND EVALUATION STRATEGY | 14 |
| IV. | COST AND FINANCING | 16 |
| V. | EXECUTING AGENCY | 17 |
| VI. | PROJECT RISKS | 18 |
| VII. | ENVIRONMENTAL AND SOCIAL IMPACTS | 19 |
| VIII. | FULFILLMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS | 19 |
| IX. | ACCESS TO INFORMATION AND INTELLECTUAL PROPERTY | 20 |

PROJECT SUMMARY
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As evidence of the Mexican government's commitment to promoting financial inclusion in the country as a tool for economic development and the eradication of poverty, the Consejo Nacional de Inclusión Financiera [National Council for Financial Inclusion] (CONAIF) was created on 3 October 2011 with the purpose of proposing measures aimed at planning, formulating, implementing, executing, and monitoring a national financial inclusion policy. Consistent with this strategy, the Government of Mexico, acting through the National Banking and Securities Commission (CNBV), has in recent years made significant strides in promoting a regulatory framework that facilitates access to the formal financial sector, particularly for vulnerable population segments. These regulatory changes notably include authorizing the use of channels such as correspondent and mobile banking to provide financial services, introducing simplified accounts with minimum opening requirements, and creating nonbank financial institutions such as Sociedades Financieras Populares [for-profit microfinance institutions] (SOFIPOs), which may engage in deposit-taking activities.

In the area of social protection, the government, acting through the Department of Social Development (SEDESOL), manages conditional cash transfer (CCT) programs through Oportunidades, a program aimed at low-income families and contingent upon children's school attendance and health screenings. Social protection payments provide a crucial opportunity for financial inclusion and vulnerability reduction through savings, since studies show that the recipients of these government payments who save tend to consume less on impulse and spend more wisely based on family priorities, using their savings for education expenses or emergencies.¹

Despite advances in access to the financial system, only 56% of the population reports using available formal financial products. It is estimated that only 35.5% of the adult population has formal savings, and the figure is even lower among women and young people.² In addition, according to a recent study,³ 66% of young Mexicans interviewed rate their financial knowledge as below average despite the fact that more than 50% report that their future plans include using savings for productive and entrepreneurial activities.

In the context of the ProSavings program (Linking Social Protection Payments to Savings) (RG-M1198), this project aims to offer a commitment savings product to 6,800 children and youth 12 to 18 years of age, who are part of households that benefit from government payment programs, and low-income households in general, in the states of Querétaro, Mexico, Oaxaca, and Yucatán. Through the executing agency Raiffeisen Latina, six financial institutions will target this market segment with a view to expanding their client

¹ See Gertler, P., Martínez, S., and Rubio-Codina, M. Investing Cash Transfers to Raise Long-Term Living Standards. Impact Evaluation Series 6; and Cull, R., Ehrbeck, T., and Holle, N. 2014. "Financial Inclusion and Development: Recent Impact Evidence." Focus Note 92. CGAP.

² INEGI. 2012. National Financial Inclusion Survey. Analysis of results. INEGI, CNBV, Department of Finance.

³ MasterCard. 2013. "Conocimientos financieros básicos de la juventud en Latinoamérica y el Caribe" [Basic financial knowledge of youth in Latin America and the Caribbean].

base on the basis of a profitable business strategy. In addition to offering a savings product, the executing agency will conduct financial education and entrepreneurial education campaigns that will be implemented at various educational institutions.

ANNEXES

| | |
|-----------|---|
| Annex I | Logical Framework |
| Annex II | Summary Budget |
| Annex III | Quality for Effectiveness in Development (QED) Matrix |

APPENDICES

Proposed resolution

INFORMATION AVAILABLE IN THE MIF PROJECT INFORMATION SYSTEM

| | |
|------------|---|
| Annex IV | ProSavings document (operation RG-M1198) |
| Annex V | Itemized budget |
| Annex VI | Preliminary list of milestones |
| Annex VII | Diagnostic needs assessment of executing agency (DNA) |
| Annex VIII | Schedule of activities |
| Annex IX | Terms of reference for the Project Coordinator |
| Annex X | DGRV support letter |
| Annex XI | Selection criteria for participating financial institutions |
| Annex XII | List of participating institutions |

ABBREVIATIONS

| | |
|---------|---|
| AWP | Annual work plan |
| BANSEFI | Banco de Ahorro Nacional y Servicios Financieros [National Savings and Financial Services Bank] |
| CCT | Conditional cash transfer |
| CNBV | National Banking and Securities Commission |
| CONAIF | Consejo Nacional de Inclusión Financiera [National Council for Financial Inclusion] |
| DGRV | German Cooperative and Raiffeisen Confederation |
| DNA | Diagnostic needs assessment of executing agency |
| ENIF | National Financial Inclusion Survey |
| IDRC | International Development Research Centre |
| PATMIR | Proyecto de asistencia técnica al microfinanciamiento rural [Rural microfinance technical assistance project] |
| SEDESOL | Department of Social Development |
| SOCAPs | Sociedades Cooperativas de Ahorro y Préstamo [Savings and loan cooperatives] |
| SOFIPOs | Sociedades Financieras Populares [For-profit microfinance institutions] |

MEXICO
CREATING A SAVINGS CULTURE AMONG MINORS
(ME-M1098)

EXECUTIVE SUMMARY

| | | | |
|--|---|--------------------|------|
| Country and geographic location: | Mexico, states of Yucatán, Oaxaca, Querétaro, and Mexico. | | |
| Executing agency: | Raiffeisen Latina S. de C.V. de R.L. | | |
| Area of access: | Access to financing. | | |
| Agenda: | Savings, payments, and new distribution channels. | | |
| Coordination with other donors/Bank operations: | | | |
| Direct beneficiaries: | Low-income children and youth in households benefitting from conditional cash transfer (CCT) programs in Mexico. | | |
| Indirect beneficiaries: | The minors' households will indirectly benefit from the program. They will have guardianship of the savings accounts and will therefore participate in the financial education process. | | |
| Financing: | Technical cooperation funding: | US\$477,600 | 56% |
| | Investment: | US\$000,000 | |
| | Loan: | US\$000,000 | |
| | Total MIF contribution: | US\$477,600 | |
| | Local counterpart: | US\$370,530 | 44% |
| | Cofinancing (if any): | US\$000,000 | 00% |
| | Total: | US\$848,130 | 100% |
| Execution and disbursement timetable: | Execution period: | 36 months | |
| | Disbursement period: | 42 months | |

Special contractual clauses:

The following will be conditions precedent to the first disbursement: (i) designation of one or more individuals to represent the executing agency in all actions related to the execution of this agreement and delivery of the original counterparts bearing the signature(s) of such representative(s); (ii) submission of evidence that the executing agency has appointed the project coordinator; (iii) submission of the financial plan to the Bank, including the amount required for carrying out the project activities, in accordance with the costs of programmed activities and future disbursements; (iv) signed agreement(s) with at least six financial institutions that will participate in the project; (v) approval of the project Operating Regulations; and (vi) approval of the annual work plan (AWP).

Environmental and social review:

This operation has been pre-evaluated and classified in accordance with the provisions of the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703). Since the impacts and risks are limited, the project has been proposed as a category "C" operation.

Unit responsible for disbursement:

The Country Office in Mexico will be responsible for supervising this project and making disbursements.

I. BACKGROUND AND RATIONALE

- 1.1 This project, Creating a Savings Culture among Minors (ME-M1098) is framed within the regional program, ProSavings Linking Social Protection Payments to Savings (RG-M1198). It is expected to be the last of 12 projects in which financial intermediaries design and implement business strategies based on an offering of liquid savings and commitment savings products⁴ responding to the needs and characteristics of government payment recipients and incorporating financial education and alternative distribution channels. These projects will be pilots aimed at carrying out and validating business strategies in various contexts and with various institutions, seeking to achieve sustainability of savings products for this population segment. The project ME-M1098, to be executed by Raiffeisen Latina, as well as the other aforementioned projects, will contribute to the targets established under the ProSavings program.
- A. **On the program: Linking Social Protection Payments to Savings (RG-M1198)**
- 1.2 **Program objectives and components.** In March 2011, by means of document MIF/AT-1119, the Donors Committee approved nonreimbursable technical-cooperation funding for the program Linking Social Protection Payments to Savings (RG-M1198). The objective of the program is to increase the availability of financial products and services targeted to low-income populations. The specific purpose of the program is to formulate business models for developing and implementing liquid and commitment savings products targeted to recipients of conditional cash transfers (CCTs) or other social protection payments in Latin America and the Caribbean. The program is comprised of the following components: (i) program set-up and project selection; (ii) financing of individual projects; and (iii) learning, communicating, and catalyzing. The program plays a central role in implementing the savings, payments, and new distribution channels agenda under the MIF Access Framework, the objective of which is to boost access to financial services for lower-income populations by linking remittances, government payments, etc. with savings and other financial products (see document 1, section II of the technical files for program information (RG-M1198)). To date, six of the 12 planned projects have been financed. The goal of 12 projects is expected to be reached by year-end 2015.
- 1.3 **Impact evaluation.** With resources from Citi Foundation, the Canadian government's International Development Research Centre (IDRC), and the MIF, the program has selected two projects that will be subjected to a rigorous impact evaluation. For the project in Peru (PE-M1089), the research team has already been hired and the baseline has been determined. For the second project, in the Dominican Republic (DR-M1036), the evaluation is in the contracting process. In

⁴ Liquid savings means instant access savings and commitment savings means "committed" rather than "compulsory" or "forced" savings. Under the commitment savings product, the client undertakes periodically to deposit a predetermined sum of money and withdraw the funds only for a predetermined purpose and/or after a predetermined period.

addition, in coordination with the Development Effectiveness Unit (DEU), at least one more project will be selected and submitted for consideration to the program's Advisory Committee.

- 1.4 **Knowledge generation.** As in the case of the other projects in execution under ProSavings, this project's knowledge products and activities will be captured and expressed through activities financed directly by the program (RG-M1198) and will be managed under the program's communication strategy. In addition, knowledge products generated through the program will follow the steps and guidelines provided by the MIF's knowledge tool.

B. The project: Creating a Savings Culture among Minors (ME-M1098)

- 1.5 **Financial inclusion in Mexico.** The Consejo Nacional de Inclusión Financiera [National Council for Financial Inclusion] (CONAIF) deems financial inclusion to encompass access to and use of formal financial services within an appropriate regulatory framework that ensures consumer protection and promotes financial education with a view to enhancing the financial capacities of all population segments.⁵ This council was created on 3 October 2011 as evidence of the Mexican government's commitment to promoting financial inclusion in the country. The purpose of the council is to propose measures aimed at planning, formulating, implementing, executing, and monitoring a national financial inclusion policy.

- 1.6 In 2012, in order to perform a diagnostic assessment of financial inclusion in Mexico, CONAIF designed and conducted the National Financial Inclusion Survey (ENIF 2012).⁶ The survey targeted the population 18-70 years of age, reaching 7,000 households throughout the country (urban and rural locations).⁷

- 1.7 **The Mexican financial system and an inclusive regulatory framework.** In the Mexican market, there are currently seven sectors supervised by the National Banking and Securities Commission (CNBV)⁸ and three types of institutions providing financial services: (i) formal regulated financial institutions: banks (46), development banks (6), credit unions (118), savings and loan cooperatives (SOCAPs) (132), for-profit microfinance institutions (SOFIPOs) (44), community financial institutions (SOFINCOs) (1), and multipurpose financial institutions related to a financial group (SOFOMEs) (27);⁹ (ii) unregulated financial

⁵ Resolution creating CONAIF, Federal Official Gazette, Mexico, 3 October 2011.

⁶ CONAIF. 2013. Financial inclusion report 5. CNBV.

⁷ Ibid.

⁸ <http://www.cnbv.gob.mx/SECTORES-SUPERVISADOS/OTROS-SUPERVISADOS/Descripción-del-Sector/Paginas/default.aspx#>.

⁹ Ibid.

institutions: unregulated SOFOMEs and pawn shops; and (iii) informal financial institutions: rotating savings and credit associations and moneylenders.¹⁰

- 1.8 Since 2008, acting in the Mexican financial market, the CNBV has driven regulatory changes aimed at raising the percentage of individuals with access to the formal financial system. These changes notably include: amendments to the Popular Savings and Credit Law (2001) to include SOFIPO regulation (2008), authorize the provision of financial services by nonbank correspondents (2008), authorize the provision of financial services through mobile banking (2009), introduce simplified accounts with minimal opening requirements (2010), and create niche banking to encourage competition among banks (2008-2009).¹¹ In addition, in January 2014, the government enacted a financial reform, based on four pillars: encouraging competition in the financial sector, encouraging credit through development banks, expanding credit through private financial institutions, and making the financial sector as a whole more solid and prudent.¹²
- 1.9 **Fighting poverty through CCTs.** The Department of Social Development (SEDESOL) manages several social programs in Mexico with a view to overcoming poverty through inclusive and comprehensive human development with shared responsibility mechanisms.¹³ Noteworthy among these is the Oportunidades Human Development Program, launched in 1997 as a subsidy program targeting families living in poverty and contingent upon children's school attendance and health screenings. This program provides subsidies to 25 million beneficiaries,¹⁴ of whom 96.5%¹⁵ are women primarily residing in rural areas. The support system under Oportunidades is described in Table 1.

¹⁰ Hoyo Martínez, Carmen, Peña Hidalgo, Ximena, and Tuesta, David. 2013. "Factores de demanda que influyen en la Inclusión Financiera en México: Análisis de las barreras a partir de la ENIF" [Demand factors influencing financial inclusion in Mexico: Analysis of barriers based on the ENIF], Working Document 13/26. BBVA Research.

¹¹ Ibid.

¹² The Mexican banking system is among those that lend least in the world, with a private-sector credit penetration of merely 26%. Lending in Mexico is lower than the OECD average and lower even than the average in Latin America. See:

http://www.hacienda.gob.mx/SALAPRENSA/doc_discurso_funcionarios/secretarioSHCP/2014/lvc_pro_mulgacion_reforma_financiera_09012014.pdf.

¹³ www.sedesol.gob.mx.

¹⁴ Ibid.

¹⁵ Data as of December 2013:

http://www.oportunidades.gob.mx/Portal/wb/Web/primer_bimestre_corresponsabilidad_novdic2014.

Table 1.

| Type of support | Purpose | Amount (US\$) ¹⁶ |
|--|--|---|
| Food support | Improvement of family food and nutrition | US\$24/month |
| Supplementary food support | Contribution to family expenses due to the high cost of food | US\$10/month |
| Child support | For each child 0-9 years of age (max. 3 subsidies per household) | US\$8.80/month |
| Senior support | For each senior adult not served by the Pension Program for Senior Adults | US\$26/month |
| Educational scholarship support | Amount varies based on school level | <u>Primary school:</u> US\$13- US\$25; <u>middle school:</u> US\$37- US\$41 (men), US\$39- US\$47 (women); <u>high school:</u> US\$62- US\$71 (men), US\$71- US\$81 (women) |
| Monetary support from “Jóvenes con Oportunidades” [Youth with Oportunidades] | Support to encourage young people to complete high school before their twenty-second birthday. Amount paid on a one-time basis | US\$351 |

1.10 Most beneficiaries receive payment of their Oportunidades subsidy electronically through a bank account at Bansefi. Bansefi is a Mexican federal government-owned bank that seeks to promote savings, financing and investment, and financial inclusion. Through its network of branches, correspondents, automatic tellers, and points of sale, it provides financial coverage to 97.8%¹⁷ of the country’s municipios.

1.11 **Household recipients of CCTs and their savings potential.** Data from the ENIF 2012 survey show that 35.5% of adults in Mexico have formal savings. These saving percentages vary by gender and by size of town. Thus, in areas with fewer than 15,000 inhabitants, 26% of men have formal savings, vs. 19% of women. With regard to the purpose of saving, the adult population that saves formally reports that it does so primarily to face emergencies (39%), secondly for personal spending (29%), and thirdly for health and education (25%). This shows that saving helps to improve living conditions. It is worth noting that, in Mexico, the percentage of those who save informally is higher, amounting to 43.7% of the adult population. Informal savings arrangements notably include rotating savings and credit associations and domestic savings.

1.12 Studies¹⁸ show that recipients of government subsidies who save consume less on impulse and spend more wisely based on family priorities, using their savings for

¹⁶ Conversion XE Currency Converter, 30 March 2014.

¹⁷ As of December 2012, see: CONAIF. 2013. Financial inclusion report 5. CNBV.

¹⁸ See Gertler, P., Martínez, S., and Rubio-Codina, M. Investing Cash Transfers to Raise Long-Term Living Standards. Impact Evaluation Series 6 and Cull, R., Ehrbeck, T., and Holle, N., 2014. “Financial Inclusion and Development: Recent Impact Evidence.” Focus Note 92. CGAP.

education expenses or for emergencies. This underscores the importance that those who live in poverty attribute to saving as a vehicle for improving their living conditions. The benefits derived from savings for low-income individuals include the ability to accumulate assets that can enable them to invest in home improvements, health, education, and small businesses.

- 1.13 **Financial inclusion of youth.** With regard to the financial inclusion of youth, according to a study published in 2013,¹⁹ 66% of young Mexicans interviewed rate their financial knowledge as below average. The study also indicates that, despite having greater responsibility for household budgets, women have fewer accounts than men. In addition, the study reveals that young people in Mexico have clear self-improvement goals and an entrepreneurial spirit. The three highest priorities for young people are to “be financially stable, enjoy good health, and have their own home.”²⁰ The surveyed youth indicated that, in order to reach these goals, they intend to “find a job or an activity that provides them with extra income and then start a new business.”²¹ In this regard, 55% of those surveyed indicated that their medium-term plans include setting money aside for the future (starting to save), 54% indicated that they intend to start a business, and 53% intend to purchase an automobile. At the regional level, 57% of the surveyed youth stated their belief that financial institutions are responsible for providing them with access to financial education.²²
- 1.14 **The problem.** Despite advances in financial inclusion issues in Mexico, only 56% of the population reports using formal financial products,²³ and this is reflected in the low formal savings figures at the national level. These figures are even lower among low-income youth, who despite having an interest in, and the potential for, saving, are not doing so. The United Nations estimates that less than 5% of young people 15 to 24 years of age in the world have a savings account. Similarly, it estimates that youth are 33% less likely to have a savings account than adults and 44% less likely to save formally at an institution.
- 1.15 As indicated by behavioral economics, creating savings habits is not an easy task.²⁴ Hence the need to encourage savings among children and youth, who will at first accumulate small amounts of money but will in the future be familiar with the financial system and the benefits of saving, which will allow them to make greater investments in their search for better living conditions.

¹⁹ See “Conocimientos financieros básicos de la juventud en Latinoamérica y el Caribe” [Basic financial knowledge of youth in Latin America and the Caribbean]. MasterCard.

²⁰ <http://eleconomista.com.mx/finanzas-personales/2013/09/29/estabilidad-financiera-prioridad-jovenes>.

²¹ Ibid.

²² <http://www.paymentmedia.com/news-299-mastercard-la-educacin-financiera-es-crucial-para-lograr-la-independencia-financiera.html>.

²³ Formal financial products include: savings, retirement savings, insurance, and credit.

²⁴ Behavioral economics makes reference to multiple psychological factors that influence decision-making aimed at replacing current consumption with future consumption.

- 1.16 In Mexico, financial institutions such as SOCAPs and SOFIPOs have identified children and youth as a potential niche market in view of parents' demand for savings products for their children. However, developing specific products, campaigns, and financial education methodologies requires a high initial investment while offering a long-term return. Consequently, these institutions have not been able to make inroads in this area.
- 1.17 **Causes.** According to the literature²⁵ and to field visits conducted by the project team, the above is primarily due to the fact that financial institutions have limited knowledge of lower-income minors, limiting the development of savings products that respond to the needs and preferences of this market niche. In addition, financial institutions implement traditional financial education mechanisms that are generically aimed at all market segments, with only a few variations in terms of support tools and promotional material. Creating interest and understanding among children, youth, and the low-income population in general requires specific and innovative materials and methodologies.
- 1.18 The distribution channels for the products offered also play an essential role in the financial inclusion of the low-income population.²⁶ This is one of the main barriers identified on the demand side, due to the difficulty of access and the costs associated with transportation to the financial institution to open accounts, perform transactions, etc. These barriers attest to the need to offer clients products and services that reflect their economic circumstances, geographic location, and requirements.
- 1.19 **Proposed project.** This project focuses on 12 to 18-year-old children and youth of both genders in Mexican households that benefit from conditional transfer programs. At the same time, their parents will play an important role, considering that minors (under 18) need an adult's authorization to open an account. Thus, parents or guardians of minors will also be able to participate in the training, potentially creating an additional effect on the savings culture within the household. In this project, at least one savings product adapted to the needs of this population will be developed and implemented by six participating financial institutions. Similarly, these institutions will implement alternative channels for opening accounts other than at their branches, as well as nonbranch channels, to facilitate access by beneficiaries while allowing a return for the institutions. In addition, this project will include a financial education component consisting of campaigns designed to teach beneficiaries about money management and provide basic entrepreneurship education aimed at encouraging minors to develop a

²⁵ See Cano, Carlos Gustavo, et al. Acceso a Servicios Financieros en Colombia [Access to financial services in Colombia], Borradores de Economía 776. 2013. Banco de la República de Colombia [central bank of Colombia].

²⁶ Hoyo Martínez, Carmen and Peña Hidalgo, Ximena. Factores de demanda que influyen en la Inclusión Financiera en México: Análisis de las barreras a partir de la ENIF [Demand factors influencing financial inclusion in Mexico: Analysis of barriers based on the ENIF]. Working document 13/36. BBVA. Mexico City, D.F., December 2013.

positive view of the future through saving with a goal in mind. It should be noted that the purpose of entrepreneurship education is to raise awareness and motivate minors without the need to link the developed savings products to a specific enterprise. This project is aligned with the objective of the ProSavings program by encouraging savings habits from an early age, with a view to accumulating capital and thus helping, in the medium and long term, to reduce the vulnerability of families living in poverty.

C. Project beneficiaries

- 1.20 The beneficiaries of the project will be children and youth of both genders and various ethnicities ranging from 12 to 18 years of age who are part of households benefitting from conditional transfer programs, and low-income households in general, residing in urban and rural areas in the states of Querétaro, Mexico, Oaxaca, and Yucatán. Mexico and Oaxaca are among the states with the largest number of Oportunidades²⁷ beneficiaries, while Oaxaca and Yucatán have the lowest levels of access to financial services.²⁸ The financial institutions that will develop and offer products under this project have a presence in the four aforementioned states and provide ease of access in view of the violence in Mexico.

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

- 1.21 This pilot, and the initiatives that replicate it, will help reduce the vulnerability and foster the financial and entrepreneurial capacities of minors, in certain areas of Mexico in the short term and in Latin America and the Caribbean in the long term. Through commitment savings, this project helps to foster a savings culture in the Mexican population at an early age, creating a new generation of financially included and less vulnerable adults. The support to be provided to the financial institutions will also contribute to the development of the private sector and to the sector's ability to offer appropriate products and services to a traditionally underserved and generally little-known segment of the population. Thus, these financial institutions will be able to invest in their clients without any adverse effects on their own profitability and expand their client base in both the short and long term, cultivating financially educated users who may access other financial services in the future, thereby enhancing the institutions' profitability.
- 1.22 **Alignment with the agenda.** This project is aligned with the savings, payments, and new distribution channels agenda, since it will reach beneficiaries who live in poverty and receive government payments in order to increase their access to financial, primarily savings, services. In addition to the project outcomes from

²⁷ Source: SEDESOL. Total number of beneficiaries at the national level (November-December 2013): 25,356,937; state of Mexico: 2,244,779; Oaxaca: 1,769,995.

²⁸ Oaxaca is the state with the lowest coverage of financial services, with 72% of its municipios not having any point of access. Yucatán has the third-lowest coverage of any state, with 41% of its municipios not having any point of access. Source: Financial inclusion report 5. CONAIF.

specifically financed activities, outcomes will be achieved in the area of knowledge generation and dissemination, as described in detail in paragraph 2.10, which will contribute to the savings, payments, and new distribution channels agenda.

- 1.23 **Collaboration with the IDB Group.** This project is consistent with the Bank's country strategy with Mexico, the general objective of which is to boost the growth of economic productivity and development and help to break the intergenerational cycle of poverty through actions designed to develop inclusive financial savings products and services for the low-income population benefitting from the Oportunidades program and to create a culture of savings, planning, demand for new financial products, and cash management in this population. The project team has been coordinating with the social sector specialists responsible for the conditional transfer programs, specifically the Oportunidades program. Similarly, the project team will contact the Capital Markets and Financial Institutions Division (CMF) to coordinate the actions being carried out by Bansefi in this regard in order to ensure this project's complementarity with others that may in the future receive Bank support in the area of conditional transfers.

II. PROJECT OBJECTIVES AND COMPONENTS

A. Objectives

- 2.1 The expected impact of the project is to help to improve the living conditions of Mexican families receiving conditional cash transfers (CCTs) through greater access to financial products and services. The expected outcome is to increase access to, and use of, savings products by minors in families benefitting from CCTs in Mexico by developing products tailored to this population segment.
- 2.2 **Expected outcomes.** At the conclusion of this project, it is expected that (i) 6,800 low-income minors will have opened a commitment savings account developed under this project; (ii) at least 50% of the opened accounts will remain active, generating continuous deposits during a period of at least four months; (iii) of the 6,800 low-income minors, 2,270 will be opening a savings account for the first time; (iv) a total balance exceeding US\$121,595 will have been accumulated by minors in the commitment savings accounts after three years.

B. Description of the model/solution/intervention

- 2.3 This project will develop at least one commitment savings product aimed at 12 to 18-year-old minors of both genders in households benefitting from conditional transfer programs, with a promotional strategy that will vary by gender and ethnicity. This product will be adopted and offered by at least six financial institutions (SOCAPs and SOFIPOs).²⁹ The product may be acquired either in educational institutions or outside the financial institutions' branches through

²⁹ See Annex XII.

technological tools. In addition, the project will implement channels such as nonbank correspondents that will allow beneficiaries to make monthly deposits for an established period and then withdraw their accumulated funds in order to use them for a specific purpose which they themselves have determined. In addition, this project will seek to promote a culture of savings and development of productive ideas among its beneficiaries by developing and implementing financial education and awareness campaigns on entrepreneurship issues. These campaigns will be conducted at various educational institutions, led by staff from each financial institution previously trained by regional advisors to be hired through the project, with a view to creating installed capacity in each of the targeted states. In addition, teaching materials will be disseminated to reinforce the knowledge imparted. Thus, this project will provide its beneficiaries with a capital accumulation tool that fosters savings discipline, self-control, and the knowledge required to develop criteria for managing funds and planning for the future, transforming beneficiaries in the long term into potential clients for other financial products and services that can help improve their living conditions and enhance the institutions' profitability. This model is innovative because it focuses on a younger segment than those usually targeted by financial inclusion initiatives. Furthermore, incorporating financial and entrepreneurship education for children and youth is not a very common practice among financial intermediaries. However, it is a response to demand from minors and their conviction that this type of education should be provided by the financial institutions themselves.

C. Components

Component I: Design and implementation of a commitment savings product (MIF: US\$139,300; counterpart: US\$61,300).

- 2.4 The objective of this component is to design and implement at least one commitment savings product aimed at low-income children and youth between 12 and 18 years of age, based on the results of a market study that will analyze needs on the basis of gender. In view of the management and coordination work required of the relevant financial and educational institutions in each of the four states in which the project will be carried out, support will be needed from four regional (field) coordinators, who will provide training and assistance in developing and implementing the savings product, financial education, and entrepreneurship education, thus creating installed capacity that will allow the project to become sustainable. The following activities will be carried out under this component: (i) conducting a primary and secondary market study; (ii) designing a commitment savings product, including a concept study and product test, design of marketing plan and promotional campaigns, and training of the financial institutions' personnel on the new savings product.
- 2.5 These activities are expected to lead to the following outcomes: (i) one market study completed; (ii) at least six financial institutions with a commitment savings product targeted to minors; (iii) 60 advisors trained in the new product;

(iv) six marketing and commercialization plans completed (one for each institution); and (v) a tool for monitoring and reporting account opening and account activity deployed.

Component II: Development and implementation of financial and entrepreneurship education campaigns (MIF: US\$93,800; counterpart: US\$155,950).

2.6 The objective of this component is to develop a financial education program and an entrepreneurship education program to be implemented by means of campaigns at educational institutions. The following activities will be carried out: (i) developing financial education campaigns “Learning how to manage money;” (ii) developing entrepreneurship education campaigns “Who wants to be an entrepreneur/business person;” (iii) designing a promotion and dissemination strategy for the campaigns at educational institutions; (iv) developing communication channels to support the delivery of these campaigns; (v) training the personnel responsible for carrying out these campaigns; (vi) training children and youth targeted through the project; and (vii) developing brigades and events that engage minors with the concepts of savings and entrepreneurship.

2.7 As an outcome of these activities, it is expected that: (i) at least six financial institutions will participate in the financial and entrepreneurship education program provided for minors registered at educational institutions; (ii) at least 12 educational institutions will participate in the financial and entrepreneurship education program, enabling students to receive training; (iii) 16,000 financial and entrepreneurship education manuals will be available for distribution to participants; (iv) there will be 60 volunteer advisors³⁰ trained in the financial and entrepreneurship education material; and (v) 8,000 low-income children and youth will complete the financial and entrepreneurship education program.

Component III: Implementation of alternative channels for opening savings accounts for the target population (MIF: US\$8,000; counterpart: US\$13,300).

2.8 The objective of this component is to implement a strategy of alternative distribution channels for the financial inclusion of beneficiary children and youth. The activities to be carried out under this component include: (i) conducting a technological diagnostic assessment of the six participating institutions for opening accounts outside branches using technology tools; (ii) implementing alternative channels at each institution; and (iii) opening accounts for minors as part of the training programs in financial and entrepreneurship education.

2.9 These activities are expected to lead to the following outcomes: (i) a total of six reports (one for each participating institution) produced, together with a technological diagnostic assessment for account opening; (ii) at least one

³⁰ Volunteer advisors are employees of the financial and educational institutions who will conduct the financial and entrepreneurship education workshops for minors.

alternative channel implemented at each of the participating institutions; and (iii) 4,080 accounts opened directly at the educational institutions through alternative channels, using electronic media for data capture and other equipment that facilitates this process outside the financial institutions' facilities.

Component IV: Communication and dissemination of the model (MIF: US\$10,000; counterpart: US\$13,880).

- 2.10 This component is expected to lead to the following outcomes: (i) methodology guidelines with a project report; (ii) at least six publications containing case studies, project profile, and thematic analysis including project activities and lessons learned; and (iii) at least one event aimed at disseminating the model.
- 2.11 The project will generate lessons learned, evidence, and practices in the following areas: (i) how to develop savings products for children and youth in households benefitting from government payments and, in general, those living in poverty; (ii) how to provide financial and entrepreneurship education to minors; and (iii) various uses of savings for men and women. This project's lessons learned and findings will contribute to the communication strategy of the ProSavings program (operation RG-M1198), serving as inputs for the program's presentations at various events. Similarly, the project's findings and outcomes will be set forth in the thematic analysis of initial findings of ProSavings, to be published in 2015. Furthermore, depending on how it develops, this intervention could contribute to a future case study or comparative thematic analysis of ProSavings countries or projects.

D. Project governance and execution arrangements

- 2.12 The project will be executed by Raiffeisen Latina, a traditional executing agency for the Bank, in its capacity as the consulting arm of the German Cooperative and Raiffeisen Confederation (DGRV). Thus, Raiffeisen Latina will bring to bear its experience, tools, methodology, and management processes focused on the low-income savings and credit sector. The executing agency was selected through a competitive call for project proposals carried out under the program specifically for Mexico. This call for proposals led to the selection of two projects aligned with the program's objective, including the one submitted by Raiffeisen Latina.
- 2.13 DGRV and Raiffeisen Latina as its consulting arm have more than 11 years of cumulative experience in the Mexican low-income financial sector and are currently working with more than 40 financial institutions on financial inclusion processes. In view of the complexity of the Mexican financial environment and the insufficient resources available for carrying out projects directly with multiple financial institutions that understand the various contexts within Mexico, an added value was identified in working with one entity (Raiffeisen Latina) that brings several financial institutions together to participate in a single project, particularly since Raiffeisen Latina has previously executed financial inclusion projects primarily funded by the Mexican government. A case in point is the rural microfinance technical assistance project (Patmir) (see paragraph 5.3), currently

under Bansefi's responsibility, in which DGRV has been participating continuously since 2002 in recognition of its performance to date.³¹

- 2.14 In addition, at least six financial institutions (savings and loan cooperatives and for-profit microfinance institutions) are expected to participate in this project and offer the commitment savings product designed for minors (children and youth). As project executing agency, Raiffeisen Latina will select and hire consultants to carry out the various planned activities described in section II, which will be developed and validated with the selected participating financial institutions under pre-established criteria (see Annex XI). Furthermore, the MIF will actively participate in the entire project execution process.
- 2.15 One of the advantages of the project is that Raiffeisen Latina has already been collaborating on financial inclusion issues for adults with the six institutions proposed as strategic allies and has obtained tangible outcomes in recent years. This will in a sense ensure a smooth workflow as well as efficient and timely interactions and dynamics in project execution.

E. Sustainability

- 2.16 A microsavings business strategy will be outlined and validated during the three years of project implementation through the design and delivery of savings products that are attractive to the target population and simultaneously profitable for the financial institutions. Thus, with a view to expanding their client base and reaching new markets, the participating financial institutions will use the savings products to obtain information for the development of credit products, microinsurance, and other products aimed at adult savers, allowing them to cross-sell more profitable products while ensuring the sustainability of the project activities. One year prior to the conclusion of execution, a **sustainability workshop** will be conducted with all entities involved in order to identify the measures needed to ensure the continuity of project activities once the funds are exhausted.

F. Lessons learned from the MIF or other institutions in the project's design

- 2.17 Various experiences in Latin America and the Caribbean have shown that lower-income individuals do save. Some studies³² indicate that recipients of government payments who save consume less on impulse and spend more wisely based on family priorities, using their savings for education expenses or emergencies, thus confirming the importance of saving as a vehicle for improving living conditions for those who live in poverty. The benefits of savings for low-income people include the ability to accumulate assets which can allow them to invest in small businesses, home improvements, health, and education.

³¹ See Patmir report at: http://www.rflatina.com/Archivos/0211_Evaluacion_PATMIR.rar.

³² Gertler, P., Martínez, S., and Rubio-Codina, M. Investing Cash Transfers to Raise Long-Term Living Standards. Impact Evaluation Series, 6.

- 2.18 This project will take into account the knowledge and lessons learned from projects financed under the ProSavings program (RG-M1198). The aspects identified as worth noting when offering savings products to the low-income population include the need to develop or adapt the savings products provided by financial institutions to reflect the specific characteristics and needs of the target segment. Normally, financial institutions offer a limited range of savings products, which have little flexibility and do not respond to client needs, primarily those of low-income clients. While significant strides have been made in the microcredit field in terms of incorporating client needs into the product offering, these adjustments are still in process in the microsavings area.
- 2.19 Another noteworthy aspect is the importance of providing assistance and monitoring to beneficiaries by the marketing advisors in order to build confidence and security and facilitate the development of formal savings habits.³³ While this is a key aspect to bear in mind with a view to ensuring access to, and use of, the savings products developed under the project, what is needed is a viable microsavings strategy. This requires the use of low-cost mechanisms in which innovation and technology play an important role.

G. MIF additionality

- 2.20 **Nonfinancial additionality.** MIF support for this project will help to create new savings mobilization experiences among low-income children and youth who belong to families benefitting from government CCTs, using financial intermediaries that are experienced in and committed to mobilizing savings among middle- and low-income populations. The MIF's experience and technical assistance will help in implementing the appropriate products to allow this population to develop savings habits, become acquainted with the benefits of such habits, and move from informal savings (in cash and other assets) to formal savings, thus enhancing their ability to face both day-to-day expenses and emergencies and major investments. In addition, the lessons learned from this project will contribute to the design of similar initiatives to be implemented in other countries.
- 2.21 **Financial additionality.** The MIF's financial contribution is essential for the execution of projects of this type, which at the start are not very profitable and furthermore require a high initial investment. Having an initial financial contribution is also needed to ensure the project's sustainability. By means of this project and through Raiffeisen Latina, the participating financial institutions are expected to raise their visibility as significant actors and potential partners in the efforts being made toward greater financial inclusion in Latin America and the Caribbean.

³³ Series on inclusive commitment savings in Latin America and the Caribbean. Note 4 – Expanding commitment savings. Menu of challenges. Available at: <http://www.pro-savings.org/sites/default/files/arti%C2%A6%C3%BCculo%204%20web%20SPA.pdf>.

H. Project outcome

- 2.22 The project is expected to create savings habits among children and youth from an early age so that they can accumulate money for investment in education, enterprises, personal expenses, or family emergencies, thus helping to reduce their vulnerability. In addition, by providing them with guidance and awareness in the area of financial and entrepreneurship education, the project will help them to define their path in life. Similarly, the project will promote access to, and use of, financial services by children and youth, positioning savings as the access door to the financial sector and leading in turn to good use of additional products and services.

I. Project impact

- 2.23 It is expected that at least 50% of the beneficiaries who opened an account as part of the project will renew for a second commitment savings period and remain in the system at least 12 months. Regarding the use of savings, it is expected that at least 30% of the beneficiaries who saved in their commitment savings account will allocate those savings to their personal goals and that at least 3% of the beneficiaries will use their savings to implement a productive idea.

J. Systemic impact

- 2.24 Having various financial institutions under the coordination of Raiffeisen Latina, an entity that offers them continuous support in terms of organizational strengthening, allows the project to have a comprehensive focus. It is expected that the design of savings products targeting low-income minors, offered through accessible channels, with financial and entrepreneurship education campaigns and continuous assistance to and training of personnel at the participating institutions, will create installed capacity at the institutions and allow the activities and strategies developed under the project to become sustainable over time.
- 2.25 Similarly, this project seeks to develop a viable business strategy aimed at not only increasing access to and use of financial products by the low-income population but providing financial institutions with a profitable means of expanding their client base by reaching underserved niche markets. The project's experience will be shared beyond the Mexican financial system, since in view of Raiffeisen Latina's regional coverage, it is expected that the savings model for low-income minors will be scaled to other countries in Latin America and the Caribbean.

III. MONITORING AND EVALUATION STRATEGY

- 3.1 **Baseline.** Raiffeisen Latina will contract consulting services to support the development of a baseline in coordination with the financial institutions' advisors and a monitoring system using the logical framework indicators as a benchmark. The baseline will incorporate information on the initial circumstances of the beneficiaries obtained through a short survey to be conducted when the savings

- account is opened, and this information will be disaggregated by gender. A similar survey will be conducted at the conclusion of the project to identify the changes made by the beneficiaries at the end of the intervention, as well as when the beneficiaries withdraw their savings or close the account.
- 3.2 **Monitoring.** Raiffeisen Latina will be responsible for compiling and analyzing the relevant information with a view to continuously monitoring the execution of the project and the indicators set forth in the Logical Framework (Annex I). Raiffeisen Latina will be responsible for submitting project status reports (PSRs) to the MIF within 30 days following the end of six-month period, or more frequently on dates to be determined by the MIF by informing Raiffeisen Latina at least 60 days in advance. The PSRs will report on advances in executing the project, fulfillment of milestones, outcomes obtained, and their contribution to the attainment of the project's objectives, based on the logical framework indicators and other operational planning instruments. They will also report any problems encountered during execution as well as possible solutions. Within 90 days following the execution period, the executing agency will submit a final PSR to the MIF, highlighting the outcomes achieved, the sustainability plan, the findings of the final evaluation, and the lessons learned.
 - 3.3 The Bank's Country Office in Mexico is responsible for monitoring the project, and will receive MIF support in terms of evaluations, information exchange, and lessons learned from other, similar projects.
 - 3.4 **Evaluation.** Raiffeisen Latina will provide information for preparing a final evaluation of the project.
 - 3.5 An evaluation will be conducted at the conclusion of the execution period, including an analysis of: (i) the project's immediate impact on the beneficiaries; (ii) outcomes achieved in comparison to the initially established objectives; (iii) lessons learned; and (iv) sustainability of project actions.
 - 3.6 The questions that will need to be answered in this project's evaluation include the following: Do the people who are offered the new financial product open an account? Do those who have an account use it and make deposits and withdrawals on a frequent basis? Does the new product offering reduce informal savings in the beneficiary households? Does saving modify household consumption? Are there changes in the pattern of human capital accumulation (health, education)? Are there changes in the behavior of parents/adults as a result of the intervention? Do those who open the new accounts use part of their savings to invest more heavily in their productive activities? Does the new financial product give children and youth greater control over their lives, entailing a change in the role they play in their families? What is the effect of financial education and savings incentives on

- the savings level of beneficiaries?³⁴ The results of the evaluation will be disseminated at the events organized under component three of the ProSavings program (operation RG-M1198), through the MIF website, through the ProSavings program, and through the Advisory Committee's participating donors.
- 3.7 Using Citi Foundation, IDRC, and MIF resources, the ProSavings program has already selected two projects for a rigorous impact evaluation and a total of at least three projects are expected to be completed. For selection purposes and to determine the questions and methodologies, each project is submitted to the program's Advisory Committee for consideration.
- 3.8 **Closing workshop.** In due course, Raiffeisen Latina will organize a closing workshop, to be conducted jointly with other entities involved in the project, for the purpose of evaluating outcomes achieved, identifying additional tasks needed to ensure the sustainability of actions initiated under the project, and identifying and disseminating lessons learned and best practices.

IV. COST AND FINANCING

- 4.1 The total cost of the project is US\$848,130, of which US\$477,600 (56%) will be contributed by MIF and US\$370,530 (44%) by the counterpart. The execution period will be 36 months and the disbursement period will be 42 months.
- 4.2 **Retroactive recognition of counterpart expenditures.** Counterpart expenditures in an amount totaling US\$2,500 incurred on or after 30 August 2014 in relation to the design and adaptation of the savings account reporting and monitoring system, will be recognized.

³⁴ This evaluation strategy will be the minimum expected in terms of project evaluation. However, it is possible that the project will, in view of its characteristics, be selected for an impact evaluation to measure the attributability of outcomes to the project, as described in paragraph 1.3 of the background section.

| Project components | MIF | Counterpart | Total |
|---|--------------------|--------------------|--------------------|
| Component 1 Design and implementation of a commitment savings product aimed at children and youth from families benefitting from government programs | US\$139,300 | US\$61,300 | US\$200,600 |
| Component 2 Development and implementation of financial and entrepreneurship education campaigns | US\$93,800 | US\$155,950 | US\$249,750 |
| Component 3 Implementation of distribution channels for financial inclusion of the target population | US\$8,000 | US\$13,300 | US\$21,300 |
| Component 4 Communication and dissemination of the model | US\$10,000 | US\$13,880 | US\$23,880 |
| Execution and supervision components | | | |
| Executing agency/Administrative | US\$174,000 | US\$100,800 | US\$274,800 |
| Baseline | US\$4,500 | | US\$4,500 |
| Monitoring system | US\$6,000 | US\$2,500 | US\$8,500 |
| Final evaluation | US\$6,000 | US\$2,000 | US\$8,000 |
| Ex post reviews | US\$6,000 | | US\$6,000 |
| Contingencies | US\$30,000 | US\$10,000 | US\$40,000 |
| Subtotal | US\$477,600 | US\$359,730 | US\$837,330 |
| % of financing | | | |
| Institutional strengthening (Advisory services/ Training in financial management and/or procurement, if applicable) | | US\$10,800 | US\$10,800 |
| Grand Total | US\$477,600 | US\$370,530 | US\$848,130 |

V. EXECUTING AGENCY

- 5.1 Raiffeisen Latina, Sociedad de Responsabilidad Limitada de Capital Variable will be the project's executing agency and will sign the agreement with the Bank. Raiffeisen Latina, created in 2009 as the consulting arm of its parent organization, German Cooperative and Raiffeisen Confederation (DGRV), and headquartered in Mexico City, is primarily engaged in providing training, technical assistance, and consulting services. Raiffeisen Latina focuses on supporting the strengthening and consolidation of microfinance institutions, working jointly with government agencies, second-tier institutions, and community-based organizations.
- 5.2 In addition, it is directly and indirectly involved in the various projects and strengthening initiatives being carried out by DGRV on a regional level in Latin America and the Caribbean and specifically in Mexico on strengthening social structures with the ultimate aim of supporting the fight against poverty.
- 5.3 One of the weaknesses of Raiffeisen Latina is that it has been in existence for only a short time. However, it has the support and experience of DGRV, which has had a presence in Mexico for approximately 12 years and has worked in the microfinance sector for more than 40 years (see commitment letter in Annex X). In its years of experience, Raiffeisen Latina has developed and executed strengthening projects at various levels in the financial sector, with a presence in

- 29 Mexican states (of a total of 31 plus the federal district). In addition, it has participated as a consultant in IDB-MIF projects in Paraguay (ATN/ME-10252-PR) and Honduras (ATN/ME-11657-HO), always in the financial sector. In the specific case of Mexico, it has taken part in and executed several consulting projects with local counterpart and international organization resources, primarily in sector strengthening processes, at the level of federal organizations, cooperative federations, and community-based organizations.
- 5.4 One of the important projects currently being carried out by Raiffeisen Latina in Mexico is its ongoing help to DGRV in executing activities under the rural microfinance technical assistance program (Patmir), now in its third phase, which seeks the financial inclusion of 132,000 client-partners into the formal low-income financial sector within a period of three years. The activities being executed include education and training processes, technical assistance, and consulting projects on various issues.
- 5.5 Having Raiffeisen Latina as the executing agency makes it possible not only to test the savings model with minors and scale it in Mexico but to carry the experience and lessons learned from this model to other countries in the region where Raiffeisen Latina has a presence together with DGRV.
- 5.6 Raiffeisen Latina will establish an execution unit as well as the structure it requires in order to execute the project activities and manage the project resources effectively and efficiently. Raiffeisen Latina will also be responsible for submitting reports on project implementation.

VI. PROJECT RISKS

- 6.1 The following risks have been identified as capable of preventing achievement of the project's objectives: (i) changes in government strategies limiting the availability of savings products for children and youth from families who are beneficiaries of conditional transfers. **Actions to mitigate the risk:** Involve the Bank's Social Protection and Health Division, which is supporting the Oportunidades program, as well as the Mexican government in the entire project design and execution stage so as to coordinate activities, and keep them informed of the project's objective, activities, and progress; (ii) low willingness by educational institutions to facilitate access and training of children and youth. **Actions to mitigate the risk:** When coordination with the educational institution is impossible, design business and marketing strategies to be defined and executed in coordination with the partner financial institutions. The business strategies to be proposed will be based on the characteristics of the target population, predominant age brackets, geographic distribution, etc. These activities will seek to reach the target segments through different channels and promote both financial and entrepreneurship education.

VII. ENVIRONMENTAL AND SOCIAL IMPACTS

- 7.1 This operation has been pre-evaluated and classified in accordance with the requirements of the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703). Since the impacts and risks are limited, the project has been proposed as a category "C" operation.

VIII. FULFILLMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

- 8.1 **Disbursement by results and fiduciary arrangements.** The executing agency will commit to the standard MIF disbursement by results, procurement, and financial management arrangements described in Annex VII.
- 8.2 **Disbursement by results:** Project disbursements will be contingent upon verification of fulfillment of the milestones, using means of verification agreed upon by Raiffeisen Latina and the MIF. Fulfillment of the milestones does not release Raiffeisen Latina from responsibility for fulfilling the logical framework indicators and the project objectives.
- 8.3 Under the project management based on risk and performance (PMRP) model, the project's disbursement amounts will be based on the project's liquidity needs for a period not to exceed six months. These needs will be agreed upon by the MIF and Raiffeisen Latina and will reflect the activities and costs programmed in the annual planning exercise. The first disbursement will be contingent upon fulfillment of milestone 0 (conditions precedent), and successive disbursements will be carried out provided the following two conditions are met: (i) verification by the MIF that the milestones have been fulfilled, as agreed upon in the annual planning exercise; and (ii) justification by the executing agency of 80% of the cumulative funds advanced.
- 8.4 **Procurement:** For the procurement of goods and the contracting of consulting services, the executing agency will use the Bank's procurement policies (documents GN-2349-9 and GN-2350-9).
- 8.5 Since the diagnostic needs assessment (DNA) of the executing agency yielded a low level of need/risk, the project team has determined that, as set forth in Appendix 4 of the aforementioned policies, the executing agency will use the private-sector methods described in Annex 1 of the Operational Guidelines for Technical Cooperation Projects (document OP-639). In addition, project procurement processes will be subject to ex post review on an annual basis. Before beginning any procurement activity for the project, the executing agency will submit the project procurement plan to the MIF for approval. This plan will be updated annually and upon any change in the procurement methods and/or the good or service to be procured.

- 8.6 **Financial management and supervision:** The executing agency will set up and be responsible for keeping adequate financial accounting, internal control, and filing systems for the project, in accordance with the IDB/MIF financial management rules and policies. Since the DNA yielded a medium level of need/risk with respect to financial management, the review of disbursement supporting documentation will be performed semiannually on an ex post basis. In addition, the IDB/MIF will use funds from the MIF contribution to contract consulting services to train the executing agency in the financial management areas identified in the [DNA assessment](#) as requiring strengthening.
- 8.7 The executing agency will hire independent auditors to conduct ex post reviews of the procurement processes and of the disbursement supporting documentation. 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 responsibilities. The cost of this contracting will be financed using MIF contribution resources in accordance with Bank procedures.
- 8.8 During project execution, the frequency of ex post reviews of procurement processes and disbursement supporting documentation and the need for additional financial reports may be modified by the MIF based on the findings of the ex post reviews performed by the external auditors.

IX. ACCESS TO INFORMATION AND INTELLECTUAL PROPERTY

- 9.1 Access to information. The information on this project is not considered confidential under the Bank's Access to Information Policy.