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# Poverty alleviation in the Dominican Republic

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# Poverty Alleviation in the Dominican Republic

16.2% of all Dominican citizens currently live on less than $2 per day. This paper analyzes three methods of poverty alleviation utilized in the Dominican Republic: development aid, microfinance, and social investment funds. To analyze these efforts, the following criteria were used: (a) the ability to serve the poorest of the poor, (b) total impact made, and (c) sustainability of the aid organization and the poverty alleviation program. Samples of development aid programs, microfinance institutions (MFIs), and social investment funds operating in the Dominican Republic were analyzed. Development aid efforts have proven ineffective in the past, ultimately marginally hurting the communities they seek to aid. The MFIs have impacted thousands of families facing extreme poverty. Social investment funds feeding Dominican cooperatives and MFIs with sources of capital have impacted thousands of families as well. However, no poverty alleviation program analyzed has provided quantifiable measurements of the sustainable improvement in quality of life for families the programs seek to help. As such, cost-per-life-saved tools should be developed and implemented to better analyze poverty alleviation program efficiency.

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# Contents

# 1.Abstract

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# 2.Poverty in the Dominican Republic

## *2.1. Overview*

The Human Development Index, created by the United Nations, ranked the Dominican Republic 91st most-developed country out of 177 nations in 2008. (United Nations Development Programme 2008) Earlier in the year, the country was ranked 77.

According to the United Nations Development Programme, currently 16.2% of Dominican citizens live on less than $2 per day, with a significant gap in income equality. (United Nations Development Programme 2008) Meanwhile, 44.4% live below the national poverty line. The poorest 50% of the population receives less than 20% of GNP while the richest 10% enjoy almost 40% of national income. (CIA 2009) For future reference, extreme poverty, or the “poorest of the poor” of the Dominican Republic will refer to households earning per capita less than $2 USD per day.

Further illustrating the economic inequality is the Gini Coefficient. The coefficient is a ratio based on a 0-1 scale where 0 equals perfect income equality and 1 equals perfect income inequality. At zero every person would have the same income while at 1 one person would have all the income. Currently .516 according to the United Nations, the Dominican Republic has the 19th-largest measured income inequality in the world. (United Nations Development Programme 2009)

Rural poverty is a major concern in the Dominican Republic. More than 70% of the country's poor live in rural areas. Infrastructure is very limited; children have little formal schooling after 3rd grade; homes are built with mud walls, roofs of corrugated tin. (Findley 2002)

Poverty is scattered throughout the country with the highest absolute percentage of poverty in urban Santo Domingo and central Cibao. Poverty is also more visible in the southern and eastern regions around the *bateyes* (sugarcane-producing communities) where one typically finds illegal Haitian immigrant labor.

## *2.2. Haitian Immigrants*

Up to one million Haitian immigrants live in the Dominican Republic, many illegally. The governmental reaction has been to enact mass deportations. (BBC News 2009) The northern and central borders of the country have a large population of Haitian immigrants working on farms who drive down the day labor wage. (Findley 2002) They typically earn $2.50-$3.00 per day individually, able to save little to nothing for their families.

Neighboring the Dominican Republic to the west, sharing the island Hispaniola, Haiti has one of the greatest inequalities of wealth in the world today. 1% of the population owns about 50% of the wealth. (One World 2009) In 2007/2008, the Gini Coefficient was greater in five other countries compared to Haiti. 58% of the people live on less than a dollar per day. As such, the Dominican Republic is comparatively much wealthier, providing better job prospects for workers. Many illegal immigrants find themselves working in the *bateyes*, doing the tasks that Dominicans won't do.

## *2.3. Bateyes*

The *bateyes* are home to the poorest families in the country. With populations of nearly exclusively migrant Haitian labor who earn less than the minimum wage, laborers live on subsistence, unable to save. During the harvest season – approximately 8 months – workers harvest the fields for their low wages. During this time they are also not permitted to leave the plantations. In cooperation with the state cane corporation, the police force the *braceros* (sugarcane cutters) back to the plantations when they try and go to town. (Wucker 1999)

In a study, it was estimated that sugarcane workers earn 31 cents an hour for an 11.48-hour workday, or $23 USD per week. (1999) Hardly 1/3 of the *batey*-workers are literate, likely attending only one and a half years of schooling. The Dominican government has recognized 85% of all workplace injuries happen out in the *bateyes*.

Many *bateyes* have neither running water nor electricity. Water for laundry and bathing is collected rainwater in oil drums on the property. As those living on the *bateyes* are the poorest populations in the Dominican Republic, they are the most in need of aid, but their remote locations provide challenges for aid programs.

Michele Wucker best sums up life on the *batey* in her book, *Why the Cocks Fight*:

> Isolated on the *bateyes*, the *braceros* see no future beyond the waving stalks of sugarcane. They hardly exist on paper. Their children have no country. They are lucky if they get medical treatment. They have no hope. Dominicans will not do the work they do, and most Dominicans hardly blink at the subhuman treatment meted out to the immigrants. The cane cutters are animals, says Dominican common wisdom. They are good for labor and no more, worth consideration only to make sure they do not leave the *bateyes* and spread their inferior culture, their black, black skin. What concern is it that the Haitians do not receive proper medical care? They chose to come to Dominikani. What matter if Dominicans brought them here? They agreed to come. (1999)

In July, *el tiempo muerto* ("the dead season"), the *braceros* are left to earn a wage however possible. The *batey* owners generally permit the workers and their families to live on the property in their self-made houses year-round in exchange for their labor in the harvest season. In some cases the plantation owners may build uniform shacks themselves. While the plantation owners consider this a fair trade for the *braceros*' labor during the harvest season, it appears more like a system of ceaseless indentured servitude.

While these workplace conditions are deplorable, the Haitian laborers suffer through them to try to save some money to bring back home at the end of the harvest season to their families. At the border there are many places the *braceros* can change their money from the Dominican peso back to the Haitian gourde. But, the corrupt border guards have on occasion demanded the *braceros*' earnings, leaving them with nothing as they go back home for *el tiempo muerto*.

### 2.4. Remittances

Remittances, or *remesas,* are payments made by Dominicans living in the United States back to their families in country. As they have greater earning potential in the United States, oftentimes one family member may travel to the States to seek work while sending back money earned to his/her family. Many Spanish-language *remesa* websites exist like Envíos Boyá where people can make online money transfers to Dominican bank accounts. The practice is legitimate; since 2006, Remesas Dominicana, a subsidiary of Centro Financiero BHD has offered a prepaid Visa card facilitating remittances. (Cruz 2006)

Remittances and tourism, two of the country's biggest economic contributors showed signs of slowing as the economy worsened in the end of 2008. The Quisqueya Foundation reported that in the first half of 2008 remittances grew by .2 billion to $1.8 compared with $1.6 billion in 2007. (Dominican Today 2008) Comparatively, growth had been much larger in 2006 and 2007.

### 2.5. Moneylenders

Moneylenders have existed in the Dominican Republic much longer than any microfinance institution (MFI) has. Their very high interest rates and unethical lending practices have turned many borrowers to service-providing MFIs. The going rate for moneylenders in the country differs by region, but can be upwards of 50% per week in some locations. The Grameen Bank has noted that oftentimes borrowers will find themselves barely able to repay the moneylender, having to take out subsequent loans to survive while simultaneously entering a never-ending cycle of debt. (Yunus 1999)

### 2.6. U.S. Policy

Although the United States has contributed development aid funding aimed at reducing poverty in the Dominican Republic, several of its policies regarding international trade have crippled the agriculture industry of the country. In May of 2002, the Bush administration enacted a bill providing huge subsidies for U.S. agriculture producers of the already-subsidized corn, wheat, and soya bean crops while providing new subsidies for peanuts, lentils, chickpeas, dairy farms, honey, wool, and mohair-producers. The bill called for $173.5 billion in subsidies over ten years. The predicted effect was a crippling of developing country exports, effectively shutting out foreign imports to the United States. Experts predicted the prices of these commodities would fall 10-15% as the U.S. produces 19% of world agricultural exports. (Girvan 2002)

From the Association of Caribbean States (ACS), 63% of agricultural exports went to the U.S. in 1999. With this new bill, the Dominican Republic's agricultural exports were severely diminished. Critics of this policy in the EU claimed the U.S. preaches free trade but practices protectionism.

In 2005, Bush enacted the U.S.-Dominican Republic-Central American Free Trade Agreement (DR-CAFTA) to allow more sugar from the region to enter the United States. (Jurenas 2006) Further, the agreement made the provision of removing all tariffs and quotas on all but four agricultural commodities. For the U.S. that commodity was sugar (a crop vital to the Dominican agricultural economy). U.S. sugar producers opposed the bill, citing the increase in sugar imports would lower prices. Meanwhile, with the elimination of tariffs and the current subsidies given by the U.S. to its agricultural producers, the United States stands to benefit heavily from this bill. It will increase its exports while imported products will be unable to compete with U.S.-subsidized commodities. The U.S. responded to concerns raised that the U.S. support and subsidies for farms should be addressed in WTO multilateral negotiations. (2006)

# 3.Evaluating Methods of Poverty

# Alleviation

### *3.1. Overview*

As the United Nations and World Bank have attempted to evaluate poverty around the world, there has been a general lack of evaluations for poverty-reduction programs. Since a general “poverty threshold” and “extreme poverty threshold” have been measured, the efforts to reduce poverty should be measured as well.

### *3.2. Poorest of the Poor*

Poverty is measured by different metrics depending on the organization performing the poverty evaluation. As such, a common indicator is needed to ensure the truly poor are the ones being affected by poverty reduction efforts. Persons living on less than $2 per day (following the UN-based metric) in the Dominican Republic shall be considered the country's poorest of the poor.

This definition is needed largely because several microfinance institutions operating in the Dominican Republic have claimed to operate to help the poor yet have provided microloans to persons who have an income that would not put them below the poverty threshold.

### *3.3. Impact*

Another important measurement of an organization’s effectiveness at poverty reduction lies in the amount of people helped and by how much these people have been assisted. Impact shall be quantified as the total number of people who have been aided by the organization. Impact should not only be limited to including having helped people cross the $2/day poverty threshold as the operations can have long-term plans for poverty reduction.

This cannot be the only measurement of impact, however, as impact can also be more subjectively defined based on the services the organization provides to the poor. For example, a microfinance institution that provides loans to the poor may help more people with a smaller portfolio than a competitor, but the competitor may be offering additional services like a savings program, housing loans, education programs, and health clinic services.

It should be noted that any attempt at poverty alleviation that places an emphasis on female empowerment should receive additional consideration. Placing a focus on empowering women to better their quality of life has been demonstrated to have a larger impact than providing aid to males. Women are the principal caretakers for families in the Dominican Republic and any impact made on them will translate to an impact on their families. When women better their quality of life, their children are more likely to attend school. (ILO 2008)

### *3.4. Sustainability*

One critical element to evaluating methods of poverty alleviation is the sustainability factor. Sustainability refers to two goals: (a) the ability for an organization to function on its own without receiving grants or donations and (b) the ability of the organization's programs to keep the poor out of poverty.

The first goal is achieved by the organization generally by charging a fee to its users to keep the service operating. For example, for a sustainable microfinance institution the fee would be in the interest rate charged to borrowers to use the MFI's money.

The second goal is necessary to include due to the short-term successes and long-term failures of certain programs aimed at poverty alleviation that ultimately have caused more harm than benefit over time.

# 4.Development Aid

### *4.1. Overview*

Development aid is a blanket term that generally includes monetary handouts, food, and relief supplies to governments in developing countries intending to help the economies of developing nations. The aid can be earmarked for different projects, for example, agricultural development or relief following devastating natural disasters. The biggest providers of development aid include the UN, World Bank, IMF, and United States.

Development aid in foreign countries has frequently caused more harm than benefit, especially in agriculture sectors. U.S. foreign aid has caused farmers to go out of business due to the influx of free food. The USAID-supported Food for Work (FFW) program in the Dominican Republic had resulted in agriculture projects for farmers to collect significant amounts of food for little to no work, giveaway programs, and roads leading to nowhere. (Bovard 1986)

Critics have noted that recipient governments of foreign aid can easily circumvent the aid donors' intentions by changing their expenditure patterns. (Pack and Pack 2001) In addition, the loans provided by international financial institutions like the World Bank often come with conditions. These conditions have included restructuring of the economic sector in the recipient country causing liberalization, privatization, and deregulation. Liberalization has allowed transnational corporations to enter the market easily and out-compete local businesses. Privatization of public services makes water and electricity unaffordable for the poor. Deregulation prohibits the government from imposing social and environmental controls on businesses, hurting the people and natural resources. (Friends of the Earth International 2005)

Giving handouts, Smith and Thurman surmise, follows the “give a man a fish” Chinese proverb, whereby the obvious solution is to teach that man to fish. (2007) Smith and Thurman contend that microfinance is the answer to the ineffective solutions of aid agencies to aimlessly give money to corrupt governments.

### *4.2. Limitations*

The biggest limitation of development aid is that it is largely unsustainable. When aid is handed out carelessly with no real controls, it is effectively wasted. Corrupt governments misuse funds, spending them on alcohol, drugs, and prostitutes. Development aid plans are frequently short-sighted, unable to make any long-term impact. Thus, a more sustainable, entrepreneurial solution is needed to combat poverty.

### *4.3. Poorest of the Poor*

Unfortunately, those facing extreme poverty rarely see development aid. Rural communities where the extremely poor live are not as easily accessible for aid organizations as urban areas where persons living in top half below the poverty line generally live.

### *4.4. Impact/Sustainability*

As stated earlier, development aid is not a sustainable solution. It is frequently used as a bandage to provide a short-term solution rather than fix the problem. For example, instead of providing the poor with a way to earn money to purchase food to survive, development aid has sought to provide food for free, ultimately hurting and impoverishing local farmers while making the poor dependent on aid organizations.

# 5.Microfinance

## *5.1. Overview*

Microfinance arose in the 1970s as a method of combating rural poverty in Bangladesh. Under Professor Muhammad Yunus, the Grameen Bank created a program to lend money without requiring collateral to poor villagers to operate small businesses. The typical microfinance institution lending model allows groups of five women to take out a “group loan” and pay it back slowly in installments. The alternative for these borrowers has been seeking loans from usurious moneylenders who charge 100%-200% interest. The interest earned from the microfinance loan repayments helps sustain the bank and facilitate its expansion. The reason for distributing loans to groups has been that it helps raise repayment rates. Groups provide “social collateral" where group members have to count on their fellow borrowers to repay. When village bankers only collect payments weekly or bi-weekly, group members can motivate their fellow borrowers to ensure they’ve come up with the repayment amount. If one borrower lags, the other group members have to carry the slack and make the full payment for the delinquent borrower. The system is set up so that either the group pays in full or is delinquent in full. If a group is delinquent, it won't be able to receive a second loan for a greater amount. Therefore, the borrowers want to pick trustworthy group members that will make their payments.

Microfinance typically targets women borrowers as numerous studies have been done proving women as better credit risks (ILO 2008; Vivanco 2005; Cheston, Kuhn 2002) who contribute larger portions of their income to household consumption than males. Males have a lower average repayment rate and have been known to spend their micro-loans on alcohol and drugs. (Armendáriz, Roome 2008; Global Envision 2007) A rise in income for women has also demonstrated a positive correlation with children attending school full-time, especially so when an MFI has an education component. (ILO 2008) Thus, when women receive micro-loans, the family is benefitted; when men receive micro-loans, only they benefit.

Typically microfinance encompasses a savings and insurance program to further help increase the quality of life of the borrowers. The lending MFI will allocate a portion of the loan repayment into a savings account in the borrower’s name. Complementary microfinance programs have historically included providing housing and education loans as well.

Traditional banks have a history of not lending to the poor, deeming them unfit as they have no collateral and are mostly illiterate, unable to sign a contract. However, the Grameen Bank has achieved a 97.8% repayment rate in the last thirty years of operating, demonstrating the sustainability of this method for poverty alleviation. (Grameen Bank 2009)

A result of microfinance has been a “multiplier effect.” Loans disbursed over short periods of time can be reallocated repeatedly to benefit a large number of borrowers. Additionally, the multiplier effect has been used to describe the long-term improvements on wellbeing female borrowers make by using loans to support their families. (Wish 2006)

### 5.2. *Limitations*

Microfinance is not suited for every region. To achieve sustainability, microfinance requires a degree of economic stability within the borrowing country, especially with regards to the inflation rate. For example, half of Zimbabwe's MFIs have closed operations while the others struggle to survive on a daily basis. The extreme inflation, 231,000,000% in July 2008, has made cash worthless while the Federal Reserve Bank of Zimbabwe has limited ATM cash withdrawals to equivalents of $1 USD per day. (Versi 2008)

To be successful, Microfinance also requires an extent of governmental cooperation. Stated earlier, MFIs charge high interest rates to become sustainable. Some countries like China and Paraguay have mandatory interest rate ceilings, enacted to prevent predatory lenders from entering the market. However, these ceilings ultimately make credit less accessible to the poor. A CGAP paper outlined that MFIs retreat from markets with mandated interest rate ceilings as they cannot cover their operating costs. (CGAP 2009) The paper listed two main impacts on credit ceilings:

- Limited access to credit as MFIs leave the operating country
- Less transparency on cost of credit as MFIs must impose new fees associated with loans to attempt to cover costs

The Dominican Republic had inflation of 12.2% in 2008, up from 8.20% in 2007. (CIA 2009) With this rate and the permissiveness of the government to allow MFIs to operate while charging high interest rates, the country provides a suitable landscape for MFI operation.

A "plateau effect" has been observed in microlending where in a number of cases borrowers have improved their income up to a certain point and reached a plateau. Subsequent loan cycles have had no marginal impact on quality of life and income for borrowers. (Morduch 2002)

### 5.3. *Intermediaries*

#### 5.3.1. Kiva

Kiva is a non-profit intermediary that provides micro-businesses around the world with access to capital through investors. Kiva utilizes a peer-to-peer model whereby individuals registered with a credit card or Paypal account can invest in an individual business. Any individual around the world with a credit card or Paypal account and internet access can invest in Kiva. The investor can provide as little as $25 to help a micro-business. This makes Kiva accessible to individuals who don't have thousands of dollars to invest in MFIs. The micro-businesses are posted on Kiva by field partners (MFIs) seeking funds for businesses in their portfolio.

One provision Kiva makes is that any MFI seeking Kiva funds may not allocate more than 30% of its portfolio to Kiva. This provision protects the MFI that, in the event that Kiva closes operations, the MFI can continue operations.

In the Dominican Republic two MFIs have a presence on Kiva – Esperanza and FSMA. In two years Esperanza has received $851,025 in Kiva loans with a 0% default rate. In two years as a Kiva field partner FSMA has received $593,750 in loans In December 2008 FSMA notified Kiva of an internal fraud problem that has resulted in a misrepresentation of its results. Currently this is being investigated. (Kiva 2009)

One limitation of Kiva is that it can only reach field partners with internet access. Field partners in very remote rural areas that have little public infrastructure are unable to receive Kiva loans. Some critics claim that these people who lack infrastructure are in the greatest need of microfinance.

A complaint of Kiva field partners is that the loan officers must do a lot of work to get each loan. They must take a picture of each borrower/group, write a profile for each borrower, and then transmit the data to Kiva before receiving funds for borrowers. This work ultimately provides free money, however, as Kiva does not charge interest to field partners. Any interest the field partner charges is surplus after operational expenses.

### 5.3.2. MicroPlace

MicroPlace is the for-profit alternative to Kiva. It is an intermediary that connects investors with MFIs. MicroPlace's model provides investors with a return of less than 2% to more than 3% over a period of six months to over three years. The terms are different for each MFI as they can compete on the MicroPlace market for investors by offering higher interest rates and shorter loan terms. The investment must be held by the MFI for the entire period and will not be released to the investor before maturation, much like a bank CD.

Investments can be selective, allowing investors to choose from:

- Level of Poverty
    - Poor, Very Poor, Extremely Poor (metrics for understanding what poverty levels denote is unclear)
- Green
- Serves Rural Area
- Focus on Women
- Fair Trade

- Financial Return
    - <2%, 2%-3%, >3%
- When I Get Repaid
    - Anytime, < 1 year, 1 – 3 years, > 3 years
- My Money is Going to
    - Single Institution, Multiple Institutions
- Geographic
    - Africa, Eurasia, Latin America, Middle East, North America, South America, Southeast Asia

In the Dominican Republic MicroPlace allows investment in cocoa farmers through CONACADO (the National Confederation of Dominican Cacao Producers), an organization of small-scale Fair Trade, organic cocoa producers. (Equal Exchange 2009) In the last 20 years CONACADO has grown from 700 members in 3 regions to 9,500 members in 9 regions with 142 community associations. The organization is the largest association of cocoa farmers in the Dominican Republic, producing almost 28% of the nation's cocoa. (Oikocredit 2009) It should be noted that CONACADO isn't a traditional MFI lending money to villagers, but a cooperative of farmers that provides loans specifically for cocoa producers as well as education for children, road and general infrastructure support projects, health services, and additional development programs.

One criticism of MicroPlace has been that it mainly serves clients who are not facing extreme poverty. The MFIs on the site generally serve less poor clients than Kiva. CONACADO, MicroPlace's Dominican partner, chiefly serves people in the "missing middle" category of poverty who are running businesses too big for microfinance, but too small for traditional bank loans.

## *5.4. MFI Profile: Esperanza International*

### 5.4.1. Overview

Esperanza International was founded as an NGO in 1995 by David Valle, a baseball player with the Seattle Mariners. David played winter ball in the Dominican Republic and was compelled to start Esperanza after seeing poverty-stricken children living in makeshift shacks. (Esperanza International 2009) Esperanza initiated its microfinance program in 1998.

As of December 2008, Esperanza has a portfolio of $1,883,034 with 17,354 borrowers. The prior year Esperanza's portfolio consisted of $1,400,164 with 12,993 borrowers. (Mix Market 2009) In one year Esperanza's portfolio increased by 34.5% with a 33.6% increase in active borrowers. This demonstrates that Esperanza is still ever-expanding, trying to reach the largest amount of borrowers in the poorest villages. Other statistics can be seen in Key Statistics.

Esperanza’s networks include HOPE International as well as the Grameen Foundation. Grameen (a non-profit US-based foundation with ties to the Grameen Bank of Bangladesh) provided training to help Esperanza start-up in addition to investment capital. HOPE provides investment capital as well. Esperanza also receives investments via Kiva, roughly $70,000 per month. Esperanza’s biggest donors include Microsoft, Reserve Bank of the Dominican Republic, USAID, Grameen Foundation, and HOPE International.

Esperanza operates nine branch offices in the Dominican Republic: Puerto Plata, Samana, Hato Mayor, El Seibo, Ingenio Consuelo, San Pedro de Macorís, Santiago, La Romana, and Santo Domingo. In the last year a sister program was initiated in Tru Du Nord in Haiti. (Esperanza International 2009) In 2009 Esperanza plans to expand to Cuba as well. Around the country Esperanza has 65 employees: 40 loan officers and 25 administrative and IT positions. (Esperanza International 2009)

It is Esperanza’s goal to have the greatest impact by serving the poorest populations in the Dominican Republic. Typical loan amounts vary between $100 to $1,000 USD depending on the loan cycle, but averages $180 per loan cycle.

### 5.4.2. Lending Model

The microlending model at Esperanza is based off the Grameen solidarity lending model whereby groups of five women make up a lending group, receive a group loan, and must pay back the loan as a group. Each woman is responsible for her share of the repayment and the group cannot make a full repayment without every woman’s share. Since the bank officer only visits each branch once every two weeks to check the status of the groups and collect payments, the groups of women must motivate each other constantly to make sure they can make their payments. This in turn makes the bank officer’s job easier as he does not have to hassle the borrowers. Consequently, this practice results in a very high repayment rate, at 97.7% based on the Esperanza MIS (as of December 2008).

Before loans are disbursed, each member undergoes a weeklong training session, since the borrowers mostly have little to no exposure to business. Potential borrowers choose their own groups with women whom they believe will be reliable and pay back their loans. The week of training has been a complaint of some borrowers. Although they appreciate the skills they gain, they are anxious to receive their loans. These women note that the opportunity cost of spending time learning banking procedures and how to save money could be spent working. However, with their training and loans these women are better able to repay their loans and improve their quality of life.

When a loan cycle is completed, the borrower groups are allowed to take out a subsequent loan for 25% more than their previous loan. For Esperanza to be sustainable, they charge a 48% annual interest rate on their loans. The average loan period for borrowers is six months.

### 5.4.3. Microfinance Plus

In addition to providing microloans, Esperanza has a "Microfinance Plus" program to provide other quality of life-enhancing services. 2% of each loan is put into a savings account for the borrower. Borrowers are all covered with a health insurance program where they can visit the Esperanza-sponsored clinic, Clinica Esperanza y Caridad, in San Pedro de Macorís and receive prescription drugs for a reasonable fee in addition to free pap smears and immunizations. An insurance program permits that should a borrower die or become ill and unable to pay a loan, the borrower's family is able to keep the remaining balance without repayment. Not all borrowers have easy access to the clinic, but for some it is much closer than Santo Domingo.

Esperanza operates the Clinica Esperanza y Caridad in San Pedro de Macorís to provide health services to the community and Esperanza borrowers. The clinic specializes in rehabilitation as well as HIV treatment, having the only rehabilitation clinic in the area. In 2007 approximately 3,000 patients were treated, and in 2008 as many as 4,000 patients treated at the clinic. Additionally, due to a partnership with Operation Rainbow, Esperanza has been able to fly down orthopedic surgeons to work on the families of borrowers for free.

Computer education and general literacy courses are offered for adults, most of whom never completed formal schooling. Esperanza entrepreneurs create business plans with the help of a loan officer, learning the principles of budgeting, marketing, pricing, accounting, as well as the logistics of where to buy, prepare, and sell goods.

Home improvement loans are disbursed via a special "Homes of Hope" program to help create better living conditions for borrowers. The borrowers receive the improvement loans at very low interest rates and receive the aid of an Esperanza-owned construction team to help make the home improvements.

A school was founded in 2008 to provide education for youths in rural areas of the Dominican Republic. The school has 421 enrolled students in grades K-8. Its headmistress was formerly a borrower but became a teacher after neighborhood women were impressed with how well-mannered her children were.

Through a prostitute-to-work program, Esperanza has empowered prostitutes to get off the streets of Puerto Plata, have self-respect and confidence, learn a vocation, and become a borrower. Using religion to instill within these women that their bodies belong to God and not themselves, they become empowered and determined to provide for their families.

### 5.4.4. Esperanza y Vida

The Esperanza y Vida program allows HIV-positive women to become active borrowers with lower interest rates, lower payments, and a lower form of collateral with each borrower receiving a loan as single borrowers as opposed to a five-person group.

When borrowers are diagnosed with HIV their quality of life drastically decreases. They become depressed and take poorer care of their children. This program effectively represents Esperanza's mission to improve poor Dominicans' quality of life.

### 5.4.5. Barriers/Obstacles

Some borrowers have had complaints with Esperanza's lending method, that they would prefer single-loans as opposed to group-loans. However, the group lending method makes the women interdependent and acts as a form of social collateral to ensure repayment. Single-lending models have proven over history to have a lower average repayment rate.

Borrowers have complained of the high interest charged. Since commercial banks in the area charge less, they are often seen as more accessible. However, the commercial banks don't have savings programs, require physical collateral, are oftentimes hard to reach (as they are primarily in urban areas), and lend rarely to women.

Borrowers have also expressed interest in monthly repayments as opposed to bi-weekly. It has been proven, however, that bi-weekly repayments are more effective. With monthly repayments, many borrowers forget to save money for repayments until shortly before repayment is due and ultimately become delinquent.

Some borrowers have complained about the training programs being too excessive, requiring several days before the borrower can receive funds. However, this training ensures the borrowers will be responsible with the money and use it well.

One limitation with Esperanza is its NGO structure. As an NGO, it is unable to hold and lend borrower savings. With a regulated bank structure, Esperanza would have access to more capital and retain control of borrower savings. Currently, Esperanza deposits its borrowers' mandatory savings in various banks around the country. To withdraw from these accounts, a borrower must fill out a form and wait several days for the loan officer to process the request, have the transaction completed by administrative officers, and give the money to the borrower.

Esperanza's mission is to serve the poorest of the poor. This necessitates creating banks in the remote, sugarcane-producing regions of the country. These locations provide few potential microfinance borrowers, ultimately raising the costs associated with loan distribution.

### 5.4.6. Religion

95% of Dominicans are Roman Catholic (CIA 2009); most of Esperanza's borrowers are Roman Catholic. Esperanza, however, is an Evangelical-affiliated non-profit organization. The NGO maintains partnerships with the HOPE International network, a "global, faith-based, non-profit organization focused on poverty alleviation through microenterprise development." (The MIX Market 2009)

Concerns are raised when considering the religious differences between Esperanza and its typical clients. Is Esperanza simply a missionary group that uses microfinance to leverage its position? If one does not accept Evangelical Christianity and the teachings of Esperanza can one still be eligible to receive loans?

Numerous faith-based MFIs exist around the world today, many scrutinized by the microfinance community with the criticism that religion should be separated from microfinance. Opportunity International, a Christian MFI, states on its website "Our commitment is motivated by Jesus Christ's call to serve the poor." (Opportunity International, 2009) This ultimately raises the question - does the message of Christianity get in the way of providing micro-loans?

When I approached Esperanza to visit them in Santo Domingo, they welcomed me with open arms. One of their staff suggested I arrive on Monday so I could take part in a "devotional" – an event held every Monday at branch offices where the staff holds meetings on progress, says prayers, and enjoys each other's company. It initially seemed like the Christian message was hindering microfinance, taking time away from lending and managing loans.

After inquiring further, talking with Esperanza affiliates and borrowers alike, I found that many borrowers were not Evangelicals or even converts. They were Roman Catholics, still following their beliefs, but thankful to God for having microfinance in their lives. As many Dominicans are religious, this was not unusual to hear, Christian MFI or not. If anything, I ultimately found that religion reinforces the resolve of borrowers. Religion allows for hope that borrowers will better their quality of life, that they will be disciplined in paying back loans on time, and that they should act responsibly for their families.

Overall, I found Esperanza's religious component to be unobtrusive, not imposing or causing any contention with the borrowers. "People won't mess with your religion if you don't mess with theirs," an Esperanza employee informed me. Esperanza teaches the message of Jesus but doesn't insist borrowers accept the Evangelical denomination of Christianity or Christianity at all. Esperanza simply uses faith as another tool in its microfinance arsenal to combat poverty.

One program is dedicated to taking prostitutes off the streets and putting them in a safer environment where they can receive micro-loans. A large part of the program is faith. The Christian element to the program provides the prostitutes with feelings of purpose, a sense of "divine collateral" that their bodies belong to God, not themselves, and they have a responsibility to clean up their act. Many of the prostitutes are also mothers as well as drug users. The program helps teach them responsibility and instills within them an urgency to take proper care of their children and selves. Without the religious element, it's unforeseeable as to how these women would be motivated to change their lives.

Initially I had a strong bias against the religious element being part of an MFI, but as I met with borrowers I realized that faith was giving these people hope and determination, which could not be instilled solely by interest rates and money-management seminars. As long as the faith component of lending is supplemental rather than a condition of lending, religion can be part of a working microlending model.

### 5.4.7. Borrower Profile – Maria Concepción

Thanks to an Esperanza loan, Maria has been able to run a successful clothing retail business. A single mother of four, Maria uses her $200 loan to travel to Santo Domingo, purchase inventory, and sell it at neighboring villages. Prior to borrowing with Esperanza, she borrowed from a commercial bank. However, because she had no collateral her son had to take out the loan in his own name. Maria had to travel to the bank to make each payment with her son.

While the bank charged 22%-28% APR interest, substantially less than Esperanza's 48%, it did not offer a savings program. When Esperanza loan officers came to Maria's village they offered a comprehensive program including health insurance, job training, and interest-bearing savings. Made possible by the "Plus" programs, 10% of Maria's loan payment goes directly to a savings account in her name.

Esperanza has helped Maria put her four children through school with a zero-collateral loan. Her quality of life has improved significantly, and she has hope for the future.

### 5.4.8. Borrower Profile – Milan Tapia

One former Esperanza borrower is currently the headmistress of a school Esperanza helped her build, Centro Pedagogico Infantil. She started out as a heavy gambler, owing debts and being “in the worst place” emotionally. “I can’t describe in words how Esperanza has helped me,” she said.

A single mother from a poor village, Milan received training from Esperanza on how to make payments and save money, and eventually formed a borrowing group to run a sewing business. The other members of her village were amazed at how well-behaved her children were, and sent their children to be taught by her. With a subsequent loan she was able to buy a house to teach the children in. In this small home she taught 200 students who would often have to sit on top of each other to be able to fit in the small house. To support herself and provide snacks for her students, she would continue to sew clothes early in the morning and late at night.

Thanks to help from Esperanza, on April 3, 2008 she was able to open a much bigger school, with classrooms and plenty of space for 421 enrolled students. She’s changing children’s lives daily now. “That’s my payment,” she said.

### 5.4.9. Borrower Profile – Maria Torrez

Maria lives alone in Los Alcarrizos. Her home is on a dirt road off the main street that runs by. Most of her neighbors have oil drums outside their homes to collect rainwater. They use the water to wash their clothes in, since running water isn't readily available. Many of their homes have sheet metal roofs. Fences are made of barbed wire, since it's much cheaper than wood. Several houses are incomplete, with blocks missing and roofs unfinished. They'll be completed once their owners can finish paying for them.

After her husband died three years ago, Maria had to take over the cafeteria he left behind and the photo shop she operated by herself. On her own she managed both businesses, but needed capital to expand her photo shop and sustain the cafeteria. A year and half ago she approached Esperanza to get a loan. With her initial $150 loan she was able to buy a photo printer for her shop and inventory for the cafeteria. Since her first loan, she's been able to expand both businesses significantly. Now, she's on her third loan cycle, borrowing $450 to stock her cafeteria with merchandise. She was also able to put her four kids through school. One of her daughters is in college studying publicity, using the photography skills her mother taught her.

Thanks to Esperanza, Maria is able to enjoy her life and spend less time worrying about day-to-day survival. Maria and her friends celebrate whenever possible. "If it's not someone's birthday, we'll make one up," she said.

### 5.4.10. Impact/Sustainability

Borrowers are interviewed at the end of each loan cycle to see how their lives have improved in the last six months. The survey conducted measures improvements in the borrowers' social, intellectual, economical, and spiritual aspects. Based on Esperanza's MIS, on average, borrowers improve their economic situations by 50%-60% from 1-3 loan cycles. This measurement was derived from asking borrowers open-ended questions of how their lives have improved economically. The accuracy is questionable as microfinance programs typically have greater economic impact on borrowers.

Interviews with staff members gave varying numbers on operational sustainability for the organization. The numbers ranged from 90% to 110%, but the consensus seemed to be that if Esperanza were not providing “Microfinance Plus” services, Esperanza would be 100% sustainable. The Mix Market ranked Esperanza’s operational self-sustainability at 67.75%, up from 41.95% in the previous year. This is indicative that although the MFI is not completely sustainable yet, it is expanding.

### 5.4.11. Key Statistics

(As of 2/11/09)

| | |
|---|---|
| Impact: Borrowers | 17,608 |
| Active Portfolio | $1,592,673 |
| Average Loan Size | $180 |
| % Women | 86.96% |
| Repayment Rate | 97.72% |
| Operational Self Sustainability | 67.75% |

Source: Esperanza International 2009; Mix Market 2009

### 5.4.12. Evaluation

| | |
|---|---|
| Serves the poorest of the poor? | Yes |
| Sustainable? | Partially |
| Provides savings/additional services? | Yes |
| High female borrower percentage? | Yes |

Esperanza serves the poorest Dominicans while simultaneously providing additional quality-of-life-improving services. However, Esperanza’s portfolio is small and in need of funds to grow. The Mix Market ranking implies that the MFI is improving efficiencies at a double-digit rate annually.

## 5.5. *MFI Profile: Banco ADEMI*

### 5.5.1. Overview

Banco ADEMI operates as a traditional for-profit, regulated bank in the Dominican Republic, providing an array of traditional banking services from loans to savings. (The Mix Market 2009) The bank was started in 1983 by a group of Dominican businessmen. To date they maintain 225 branches across the country in urban areas.

As of December 2007, Banco ADEMI has 47,598 active borrowers with loans ranging in value up to $35,000 USD for micro-businesses. The largest loans ($300,000 USD) are available for medium-sized businesses. The average loan size is $1,800. Other statistics can be seen in Key Statistics.

ADEMI's network includes ACCION International and GNBI (Global Network for Banking Innovation in Microfinance). ACCION is an institutional partner of MFIs around Latin America and Africa. ACCION provides technical assistance for its partners and maintains minority equity stakes in their organizations. Of its partners, 13 of them are for-profit banks, 8 are non-regulated financial institutions, and only 4 are non-profits. While its mission is to serve the poor, ACCION is a for-profit organization investing in ADEMI and MFIs in the region.

### 5.5.2. Lending Model

The lending model for Banco ADEMI is that of a regular bank. Borrowers are single, not group-borrowers, who must provide collateral. Loan terms are typically 24 months for micro-businesses. (The Mix Market 2009) Loans are only given to micro-business owners who have been operating for at least 6 months. Since Banco ADEMI requires collateral, the poorest of the poor, who lack collateral, are ineligible to receive loans.

One unique tool ADEMI has to help its borrowers is a system of ATMs. These machines perform the transactions that would typically be performed by loan officers (repayment collection and borrower withdrawals), allowing loan officers to provide a more personalized service. (CGAP 2005) Borrowers provided with debit cards can withdraw money from ADEMI ATMs located around the country without having to enter an ADEMI bank or meet with a loan officer. ATMs are not suitable for every MFI, however. They cost roughly $35,000 USD per machine and needs reliable electric and communication connections (internet, relay) to connect to the EFT network.

### 5.5.3. Barriers/Obstacles

ADEMI branches are mainly located in urban and peri-urban areas. This presents a limitation for the bank to reach the rural poor who are in the greatest need for micro-loans. Being located in cities, however, permits ADEMI to reach a greater population density with higher levels of infrastructure than rural areas. ADEMI's ATM network would be infeasible in the countryside.

Other obstacles include the requirement for collateral and having a business in operation for at least 6 months. The extremely poor, living on less than $2/day, are collateral-less. Many of them have never run micro-businesses and require training that ADEMI does not provide.

### 5.5.4. Impact/Sustainability

Banco ADEMI has achieved complete financial independence and sustainability. The Mix Market has recognized the organization's 105.42% sustainability in 2007 (The Mix Market 2009), acknowledging that ADEMI is a profitable bank. However, sustainability was 179.19% in 1998. Over the seven year period operating costs per borrower rose; the total expense ratio jumped from 11.64% to 25.22%.

ADEMI's portfolio is greater than all Mix Market-listed MFIs in the Dominican Republic combined. Despite this, metrics to measure ADEMI's impact on borrower quality-of-life are difficult to find. The number of borrowers sustainably impacted is unavailable. ADOPEM, another MFI in the Dominican Republic operates with more borrowers and a smaller portfolio.

### 5.5.5. Key Statistics

(As of 12/31/07)

| | |
|---|---|
| Impact: Borrowers | 47,598 |
| Active Portfolio | $122,737,120 |
| Average Loan Size | $1,800 |
| % Women | 44% |
| Repayment Rate | 96.02% |
| Operational Self Sustainability | 105.42% |

Source: The Mix Market 2009

### 5.5.6. Evaluation

| | |
|---|---|
| Serves the poorest of the poor? | No |
| Sustainable? | Yes |
| Provides savings/additional services? | Yes |
| High female borrower percentage? | No |

Banco ADEMI does not serve the poorest Dominican citizens. With only 44% of female borrowers, the bank does not cater to mostly women. While ADEMI has achieved operational self-sustainability, it's unknown how the borrowers are impacted. Does ADEMI actually increase borrower savings and income? The data is unavailable.

## *5.6. MFI Profile: Fundación San Miguel Arcángel (FSMA)*

### 5.6.1. Overview

Fundación San Miguel Arcángel (FSMA) was founded in 2004 by Macellino San Miguel, a successful Dominican businessman. The MFI began micro-lending in the San Cristobal region of the Dominican Republic, one of the poorest in the country. Borrowers were selected initially by a Grameen-based poverty measuring tool meant to reach the poorest of poor populations. (Fundación San Miguel Arcángel 2009) Currently, FSMA operates chiefly in rural and peri-urban areas, ignoring the poverty population density of the major cities for the poorest regions of the country.

As of December 2007, FSMA has an active loan portfolio of $2,017,169, up 225% from the previous year. With this increase has also come a sharp rise in the number of borrowers, up 160% to 12,123. (Mix Market 2009) The growth achieved thus far has been astonishing, especially considering the MFI's complete operational self-sustainability. FSMA scaled quickly in order to achieve sustainability, introducing approximately 1,500 new borrowers each month at the height of its expansion efforts. Other statistics can be seen in Key Statistics.

The Grameen Foundation is a partner of FSMA. In addition to providing low-interest loans for the MFI, the foundation provides infrastructure support and training as well. FSMA receives funding from Kiva loans as well as grants, interbank loans, and donations.

Aside from providing microloans, FSMA provides borrowers with insurance. In the event of a borrower's death or the death of the borrower's spouse, she is not required to pay the remainder of the loan.

### 5.6.2. Lending Model

FSMA uses a Grameen-based group lending model similar to Esperanza. Since both organizations received infrastructure support from the Grameen Foundation (both starting in the same year), Grameen helped establish Grameen village banking lending models in these MFIs. Groups are self-selected by female villagers. "We simply go to a community and offer our services... the rest is simply to take care of the demand thus created," said Marcelino San Miguel, founder of FSMA.

### 5.6.3. Barriers/Obstacles

In December 2008 FSMA reported to Kiva an internal fraud had occurred at its senior management level. According to Mr. San Miguel, two senior officials misreported and stole funds from the loan portfolio. FMSA's account on Kiva was immediately frozen. While Kiva is currently addressing this issue, FSMA is unable to post borrower profiles on Kiva. This also makes one wonder how deep the fraud goes. As of May 2009, the MFI's delinquency rate rose to 58.71% and was predicted to keep rising in the short-term as FSMA dealt with massive losses from the fraud. (Kiva 2009) Achieving operational self-sustainability (see Impact/Sustainability) in two years and two months is incredibly difficult for any MFI, and the fraud incident seems to address this issue.

Achieving operational self-sustainability in two years required rapid expansion. Reaching 12,123 borrowers with a loan portfolio of $2,017,169 necessitated quickly training many loan officers to disburse loans. Unfortunately, expanding at this rate also required significant oversight to maintain control. A group of borrowers with Esperanza in the city of Los Alcarrizos mentioned that no one in the area would take out a loan with FSMA. Allegedly, a loan officer had taken borrower repayments and never recorded them. The borrowers were still told to make repayments even though the officer was pocketing their money. It's not clear if FSMA became aware of this incident or just wrote off the loans.

### 5.6.4. Impact/Sustainability

Mr. San Miguel surmised that although measuring the impact his MFI has had on the quality of life of its borrowers, 25% of FSMA borrowers truly get out of poverty. The lack of true quantitative impact-measuring tools in FSMA is visible all throughout the microfinance sector.

In 24 months of full micro-lending operations FSMA achieved 104.61% operational self-sustainability. (Mix Market 2009) In the previous year the MFI was 49.45% sustainable. In one year, sustainability grew by 112%, an amazing feat for an MFI. However, it's likely this number is now significantly less due to the internal fraud issue. The organization was hurt badly and will take some time before it can regain sustainability.

### 5.6.5. Key Statistics

(As of 12/31/09)

| | |
|---|---|
| Impact: Borrowers | 12,123 |
| Active Portfolio | $2,017,169 |
| Average Loan Size | $230 |
| % Women | 100% |
| Repayment Rate | 96.66% |
| Operational Self Sustainability | 104.61% |

Source: Mix Market 2009

### 5.6.6. Evaluation

| | |
|---|---|
| Serves the poorest of the poor? | Yes |
| Sustainable? | No |
| Provides savings/additional services? | Yes |
| High female borrower percentage? | Yes |

In two years of operations, FSMA was able to achieve operational self-sustainability and reach over 10,000 borrowers. With the rapid expansion, however, FSMA's chief executive was unable to maintain control over all aspects of the business. As such, an internal fraud occurred and several problems had been reported like the issue of the thieving loan officer in Los Alcarrizos. This makes FSMA a case example for the necessity of controlled growth in an MFI.

### 5.7. MFI Comparison

| | Esperanza | ADEMI | FSMA |
|---|---|---|---|
| Serves the poorest of the poor? | Yes | No | Yes |
| Sustainable? | Partially | Yes | No |
| Provides savings/additional services? | Yes | Yes | Yes |
| High female borrower percentage? | Yes | No | Yes |
| Total Population Impacted (Borrowers) | 17,608 | 47,598 | 12,123 |

#### 5.7.1. Poorest of the Poor

Esperanza and FSMA both serve the populations facing extreme poverty. Esperanza relies on the sustainability of the peri-urban and urban branches' self-sustainability to help fund the rural, unsustainable branches. ADEMI operates as a regular bank with an emphasis on serving poor populations in the country. However, ADEMI chiefly serves the top half of persons below the nationally-designated poverty line. It is questionable as to whether they actually serve any population earning less than $2/day since this population generally lives in rural and peri-urban areas whereas ADEMI operates chiefly in urban areas.

#### 5.7.2. Sustainability and Impact

In terms of operational self-sustainability, Esperanza is partially sustainable while ADEMI is completely sustainable and FSMA is very likely unsustainable. In regards to sustainability on the borrowers, however, Esperanza is making more progress. Unlike ADEMI and FSMA, Esperanza uses a large amount of investment capital for additional Microfinance Plus projects to help further raise quality of life for borrowers. Esperanza's commitment to serving the poorest of the poor results in a decreased sustainability, however, since this population is scattered in remote areas of the country and is more costly for the organization to reach. Measuring this against operational self-sustainability makes it difficult to determine the total impact made by these MFIs. The MFIs' metrics for impact are largely non-quantitative, if existent, and are poor indicators of impact.

The percentage of women borrowers is a crucial factor for measuring impact as women have demonstrated they will use their loans to help their families instead of just themselves, affecting the greatest number of people with the microloans. (ILO 2008)

FSMA serves 100% women borrowers while Esperanza also mostly women at 86.96%. Meanwhile, ADEMI serves a minority of women at 44%.

ADEMI, as demonstrated by its portfolio, has served many more borrowers than FSMA and Esperanza, but has served wealthier clients more likely earning more than $2/day. Thus, the impact numbers are offset by the fact that most of the borrowers are not facing extreme poverty (and may not be below the poverty line).

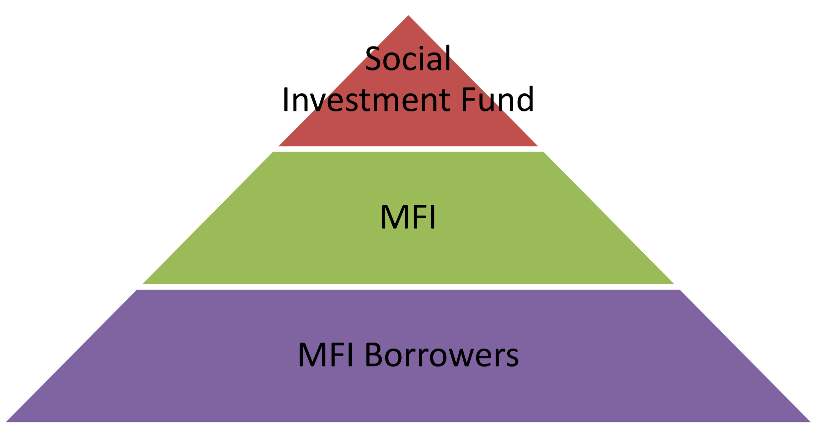
The ideal microfinance model provides more than just loans, providing supplemental services like education, savings, and healthcare. While FSMA was reported financially more sustainable than Esperanza, it provides few additional services. It cannot have the impact on borrower quality of life that Esperanza can. Once it gets back on track towards sustainability, FSMA should implement additional programs such as education and healthcare. While the additional programs may result in having fewer loans disbursed, the borrowers affected by the loans and the programs will be better off than the borrowers receiving loans and no new programs.

# 6.Social Investment Funds

## *6.1. Overview*

Social Investment Funds are for-profit or non-profit organizations that provide investment capital to MFIs, cooperatives, and other businesses that seek to improve quality of life for their impoverished members. Social investment funds lend larger sums than MFIs, usually ranging from $50,000 to $2,000,000 per investment. This lending method seeks to help a greater number of people than the typical five-person microloan. Lending $2,000,000 to a cooperative, for example, allows many farmers working together and their families to improve their quality of life rather than affect one family with a single $200 microloan.

The diagram below illustrates how the social investment fund can invest a large sum of money in an MFI and have an impact on many borrowers:



In addition to providing loans, social investment funds can provide supplemental services t0 MFIs and cooperatives like infrastructure support, job training, education, and healthcare. The fund can use its network to aid an agricultural cooperative in reaching new international markets while providing support in its supply chain to facilitate production.

## *6.2. Limitations*

Some social investment funds cannot exist without microfinance institutions already in place. While for-profit funds can seek returns on their investment, without MFIs in place, they have no one to invest in.

## *6.3. Root Capital*

### 6.3.1. Overview

Root Capital was founded by Willy Foote to provide agricultural businesses in the “missing middle” with investment capital. Root Capital operates around the world with a strong focus on Latin America. In the Dominican Republic, Root Capital invests in cocoa producers.

In addition to investment capital, the organization provides financial training and connections to supply chains. Root Capital has received investments from the Rockefeller Foundation, Starbucks, and Green Mountain Coffee Roasters. The coffee-selling giants provide low-interest loans (2%) to Root Capital in exchange for good PR and secure sources of organic, fair-trade coffee.

Root Capital provides loans of $25,000 to $1,000,000 to its clients. Its fund represents $26.5 million under management with $41 million disbursed in 2008.

Several types of loans are offered. The most common type is the trade credit loan, used to help borrowers cover costs in the months between purchasing raw goods and receiving payment from buyers. (Milder 2008) The term for these loans is generally one year and interest ranges from 9-10%. Long-term loans are also offered for equipment, infrastructure, and operations. The term can be up to five years and interest is typically 10-12% per annum. All loans have a closing cost of 1%.

### 6.3.2. Impact / Sustainability

Since inception, Root Capital has provided 550 loans totaling $120 million USD to 235 businesses worldwide while receiving a 99% repayment rate. In addition, Root Capital has provided financial education and training to 55 agro-businesses representing 27,000 small-scale producers. 360,000 farmers and artisans have been aided by Root Capital to date.

Currently Root Capital is not operationally self-sustainable. Staff has estimated that Root Capital is currently about 60% sustainable. Within the next five years, however, Root Capital is planning on increasing its loans from $41 million per year to $120 million per year. At this point, Root Capital will be 100% self-sustainable.

### 6.3.3. Case Study

In Guatemala, Root Capital provided a $100,000 loan to Manos Campesinas, a Fair Trade and Certified Organic coffee grower. The group is made up of 1,120 farmers in 713 hectares of land. The loan reduced the pressure on the business to sell prematurely at fire-sale prices to local middlemen. Subsequently, Manos Campesinas was able to grow, from 3 containers exported in 2001 to 20 in 2008. Sales over this period increased from $150k to $1.2 million per year. (Root Capital 2009)

### 6.3.4. Key Statistics

Data reflects impact made globally (As of 12/31/08)

| | |
|---|---|
| Impact: Artisans/Farmers Reached | 360,000 |
| Total Borrowers | 235 |
| Active Portfolio | $100,000,000 |
| Average Loan Per Farmer | $294 |
| % Women | 20% |
| Repayment Rate | 99% |
| Operational Self Sustainability | 60%* |

Source: Root Capital 2009

*Source: Brian Milder, Root Capital

### 6.3.5. Evaluation

Root Capital covers the bases that microfinance misses. It has successfully provided loans to cooperatives in the "missing middle" and is continuing to expand. All the while, it has maintained a 99% repayment rate. The organization has very ambitious goals to increase its loans from $41 million per year to over $120 million per year within five years. Root Capital is a model for active social investment funds that seek to provide more than capital to their borrowers.

## *6.4. Oikocredit*

### 6.4.1. Overview

Oikocredit is a Dutch-founded international co-operative society that provides loans to MFIs, cooperatives, and small and medium-sized enterprises (SMEs) throughout Latin America, Asia, Africa, and Central and Eastern Europe. (Oikocredit 2009) It obtains capital by continually issuing shares to its members (churches, support associations, social investors) and providing them 2% annual dividends. It lends $50,000 to $2,000,000 to borrowers over a period of 72 months. Oikocredit also requires of its borrowers:

- Business plan
- Feasibility study
- External audited financial statements (some start-ups provided investments)
- Legal status enabling abroad borrowing
- Income-generating enterprise
- Economically viable
- Social relevance

Further, with this data the potential borrower is rated for its risk. As of December 31, 2007 Oikocredit has allocated 40.4% of its portfolio in Latin America and the Caribbean. It mostly invests using loan and debt securities (93.7%), but also occasionally takes equity (6%) and guarantees (.3%). (The Mix Market 2009)

In the Dominican Republic Oikocredit has invested in the aforementioned CONACADO (see MicroPlace) cocoa-producing cooperative, COOPAFI, ADOPEM (an MFI), and COOPFEPROCA. COOPFEPROCA is a multi-purpose cooperative with 4,500 members that used its Oikocredit investment to start a rice mill to increase its borrowers' income. (Oikocredit 2008) CONACADO has used Oikocredit's investment of over €3.5 million to strengthen the cocoa infrastructure and maintain high product quality. (Fair Finance Fair Trade 2009)

### 6.4.2. Impact/Sustainability

Globally, Oikocredit has invested $614,523,000 in MFIs and cooperatives to date. Affecting 15,000,000 people worldwide denotes the significant impact this social investment fund has made. The organization has a repayment rate over 90% and is continually issuing shares in its fund, enabling its continued sustainable success. However, no data is available on the financial self-sustainability of the organization.

### 6.4.3. Key Statistics

Data reflects impact made globally (As of 12/31/08)

| | |
|---|---|
| Impact: Households Affected | 15,000,000 |
| Total Projects | 739 |
| Total MFI Investments | 480 |
| Active Portfolio | $614,523,000 |
| % Women | N/A |
| Repayment Rate | >90% |
| Operational Self Sustainability | N/A |

Source: Oikocredit 2008

### 6.4.4. Evaluation

Although more specific numbers on operational self-sustainability as well as the effects of Oikocredit's loans on Dominican MFIs and cooperatives are unobtainable, globally Oikocredit has impacted millions of families with its large investment portfolio. It is likely that Oikocredit is operationally self-sustainable, as it operates with such a large portfolio. Further, it is probable Oikocredit would prefer not to disclose its level of operational self-sustainability because it is a private, for-profit fund and could be criticized by the microfinance community for profiting from the poor.

## 6.5. *Calvert Foundation*

### 6.5.1. Overview

The Calvert Foundation is an NGO that invests in a diverse array of social products and services globally, with 19% of its portfolio in Latin America and the Caribbean (The Mix Market 2009). While the foundation earns no profit, its social investors receive dividends. As of the end of 2007, its portfolio is comprised of these allocated investments:

- 35.1% - International Microfinance
- 34.8% - Community Development Financial Institutions (in the U.S.)
- 16.7% - Affordable Housing (in the U.S.)
- 8.4% - Non-Traditional / Other
- 3.4% - Social Enterprise
- 1.6% - Fair Trade

Source: Calvert Foundation, 2007

In the realm of microfinance, Calvert Foundation provides interest-bearing loans to be used only as lending capital for high-performing MFIs and social investment funds with a minimum of three years experience and $2,000,000 in total assets. Its individual investments in MFIs and cooperatives range from USD $50,000 to $750,000. Its current interest rate is 4.5%. In the Dominican Republic it has investments in the following:

- Root Capital
- Oikocredit
- Equal Exchange
- Cooperative Coffees
- Emergency Liquidity Facility

### 6.5.2. Impact/Sustainability

Little published information exists on the sustainability of Calvert Foundation, as the focus is shifted in their published materials to the overall impact made by the foundation. To date, Calvert Foundation has impacted over 500,000 households with investments in MFIs, cooperatives, and NGOs, while creating several hundred thousand jobs globally.

### 6.5.3. Key Statistics

Data reflects impact made globally, as of 12/31/2008

| | |
|---|---|
| Impact: Households Affected | 506,901 |
| Total Businesses Invested | 63,937 |
| Total MFI Investments | 50 |
| Microfinance Jobs Created | 88,771 |
| Microfinance Portfolio | $55,391,000 |
| Cooperatives, NGOs, Social Businesses Financed | 5,566 |
| Cooperatives, NGOs, Social Businesses Portfolio | $29,848,000 |
| % Women | N/A |
| Repayment Rate | N/A |
| Operational Self Sustainability | N/A |

Source: Calvert Foundation, 2008

### 6.5.4. Evaluation

While information on operational self-sustainability is unavailable, the impact made by Calvert Foundation is significant. It has invested in other social investment funds like Oikocredit and Root Capital to make a return for its investors while helping new businesses and jobs for the poor. Although its portfolio is much less than that of Oikocredit and a neither a repayment rate nor a percentage of women affected are reported, the fund has made a tremendous impact. It'd be preferable, however, to know how many of those affected by the Calvert Foundation's investments are truly the poorest of the poor and in the greatest need for social investment.

# 7.Conclusion

Poverty alleviation programs in the Dominican Republic have done little on their own to measure their effectiveness. Analysis of the various programs has provided insights that while these programs are aiming to reduce poverty, they have no data on their effect on poverty reduction in the Dominican Republic. While these organizations can cite a number of jobs created, it's unknown as to the effect of this organization on national GDP, for example. Though this analysis provides data comparing these programs' numbers of people served, the programs have no data on their real impact, by how much they are improving quality of life for those they seek to aid.

In the realm of development aid, many efforts made have been catastrophic. The shortsightedness of these bandage programs, like the USAID-sponsored Food for Work, providing ill-conceived short-term solutions to long-term problems has done more harm than good. Efforts made have largely had no long-term impact or sustainability. These efforts have been unable to serve the poorest of the poor as the poor generally live in remote locations, and, as the population is largely comprised of illegal Haitian immigrants, they are undocumented.

In terms of microfinance, the efforts of Esperanza appear to make an impact while the organization is on the path to achieving operational self-sustainability. ADEMI has provided many more loans than any MFI in the country, but with the average loan at $1,800 and the requirement for physical collateral, the poorest of the poor are unaffected. FSMA, which, on paper, achieved operational self-sustainability in two years, is currently in need of restructuring due to an internal fraud scandal. However, though microfinance institutions in the Dominican Republic can achieve operational self-sustainability and serve a large population of the poorest of the poor, none have any published information on the true impact made on sustained improvement in quality of life for their borrowers.

Social investment funds feeding microfinance, cooperatives, and other development projects have brought millions in capital to the Dominican Republic. These funds have helped MFIs expand their loan portfolios and helped cooperatives with training and resources to receive fair market value for their crops. Also, as is the problem with microfinance institutions, these investment funds have no real method of calculating the sustainable impact made on the quality of life of the end-users of social investment fund dollars.

# 8.Recommendations

## *8.1. Overview – Measuring True Impact and Sustainability*

As a general recommendation for each type of poverty alleviation program analyzed, it is necessary to have accountability, to measure the true impact and sustainability of the organization, not just the ability to cover one's costs. A cost-per-life-saved metric is necessary to determine the true effectiveness of a poverty alleviation program. For example, a program administrator or potential social investor should be made aware, if one puts $1 into a program, how much could it quantifiably improve the quality of life for a person the program seeks to aid.

## *8.2. Development Aid*

Development Aid organizations need to start thinking about sustainability and of the long-term implications of their efforts. Their history of consequently harming poor populations is well-documented and it must change. Development aid organizations would do well to take a note from MFIs and social investment funds and invest in small businesses and cooperatives that provide jobs for the poor. Although development aid also seeks to invest in public infrastructure, education, and governments of developing countries, it's widely understood in the Dominican Republic that the corrupt government officials cook the books to put aid money into their own pockets. As such, the development aid programs need to demand better accountability from the governments they seek to aid. The conditions that come with aid money, like that of the World Bank, should be modified. The conditions of the aid should be that employees of the aid program be in place on the ground to observe the allocation and disbursement of the aid package through its entirety. The cost to the aid organization for the employees on the ground would be much less than the millions of dollars the organization could lose through the misappropriation of funds made by government officials.

## *8.3. Microfinance*

Of the MFIs closely examined in the Dominican Republic, the two serving the poorest of the poor (FSMA and Esperanza) have significantly fewer borrowers than ADEMI. ADEMI's main advantages to facilitate the increased portfolio are in maintaining a for-profit structure and embracing technology such as using ATMs to conduct repayments and other banking transactions. To serve the greatest number of the poorest of the poor, MFIs like Esperanza and FSMA should embrace technology and the idea of a for-profit conversion.

To facilitate scalable, rapid expansion MFIs in the Dominican Republic serving the poorest of the poor need to embrace technology. Unitus, a U.S.-based non-profit organization, helped SKS Microfinance, an Indian MFI, increase its portfolio from around 10,000 borrowers to 73,300 in one year; within 6 years the borrower portfolio had increased to 4,000,000. (Denend 2007)

Aside from the increase in technology provided, Unitus turned SKS into a for-profit regulated bank. Operating under a non-profit structure serves as a constraint on MFI expansion to serve the greatest number of borrowers possible. As a non-profit, the MFI cannot issue shares or lend borrower savings to increase its portfolio. However, a for-profit bank structure raises concerns for MFIs that fear they will no longer serve the poor in the greatest capacity with members on the board of directors who are purely profit-minded. To protect the MFI from increasing interest rates and providing dividends to shareholders, the corporate structure should exist so the MFI's shares are solely owned by the borrowers. Much like the structure of the Grameen Bank, this will allow the MFI to hold borrower savings instead of relying on local commercial banks.

Commercial banks maintaining the MFI borrowers' savings results in a waiting period before borrowers can make withdrawals. An MFI loan officer needs to receive the withdrawal request from the borrower, turn in the request to an authorized MFI employee, make the withdrawal from the bank, and distribute the funds to the borrower when the officer next visits the village.

Changing to a for-profit model has allowed SKS to receive $11.5 million in debt funding from Sequoia Capital, a venture capital firm. (SKS India 2007) A great example of the power of an MFI operating as a for-profit regulated bank is Banco ADEMI. While it serves wealthier clients than FSMA and Esperanza, it has a large portfolio and more borrowers than FSMA and Esperanza combined.

One key to note is that although an MFI may seek rapid expansion with a sufficiently sized loan portfolio, the expansion must be controlled. FMSA's experience proves a valuable lesson that though operations can look smooth on paper, the reality can be anything but.

### *8.4. Social Investment Funds*

Information on the interest rates and specific investment allocations of social investment funds (especially for-profit funds) is generally private information. However, the growing transparency movement in the social investment sector has sought to publish all relevant information to ensure the poor are not being taken advantage of. As such, social investment funds operating in the Dominican Republic can benefit from being transparent. Socially-minded investors are more likely to invest when they can see how responsibly the fund is acting, what interest rate the fund charges, and how those receiving fund dollars are using them.

Another area of social investment worth recognizing is the investment made in women and the poorest of the poor. While social investment funds invest in MFIs and cooperatives, the social investment funds just as the MFIs should be held accountable for their true impact made on women and the poorest of the poor.

# 9. Future Research

Measuring impact and sustainability on more quantitative terms has been incredibly difficult. Several MFIs around the world have surveys and other types of metrics to determine impact that are generally very informal. As many borrowers are illiterate, these surveys are usually oral, administered by a loan officer before and after a loan cycle. However, the questions on these surveys do not ultimately provide a measure of quantitative impact.

To properly measure impact, a standard metric is needed. Borrowers (as well as those receiving aid from development organizations and social investment funds) should be surveyed before and after loan cycles to determine the effectiveness of the MFI. Borrowers should be asked questions pertaining to their income pre- and post-loan as well as the quality of their homes, the amount of meals they receive per day, and the education the borrowers' children are receiving. Ultimately, a number should be devised determining the true impact per dollar invested or "cost-per-life-saved". This would effectively make the efforts of poverty alleviation organizations comparable to see which is the most efficient and can best serve the poorest of the poor.

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