

# ADOPEM BANK

## MICROFINANCE IN THE DOMINICAN REPUBLIC

A CASE STUDY

Master of Arts in Law and Diplomacy Thesis

**Submitted by Heidi M. Sumser**

May 2008

Under the Advisement of Professor Kim Wilson

© 2008 Heidi M. Sumser

<http://fletcher.tufts.edu>



THE FLETCHER SCHOOL

TUFTS UNIVERSITY

## **DEDICATION**

My thesis is dedicated to all of ADOPEM's clients affected by Hurricane Noel in October 2007 in the Dominican Republic who bravely shared their stories and demonstrated with dignity how to turn sadness into opportunity in the midst of devastating personal and professional loss. A special mention goes to client Yahaira Guerrer and her two young sons, Alexander Villar Tejada and Wirving Villar Tejada, who tragically lost their husband/father.

## **ACKNOWLEDGMENTS**

I am indebted to many people who have generously shared their experience and expertise with me. Without them, this study would not have been possible. I would like to especially thank the following people:

Mercedes de Canalda (La Doctora), Mercedes de Canalda de Beras-Goico (La Licenciada), Sonia Reyes, Eva Carvajal, Cecilia Ramon, Ivan Moquete, Hector Rodriguez and everyone else from ADOPEM Bank who enthusiastically welcomed me into their institution and graciously shared their time and experience, teaching me as much about the business side of microfinance as the human side of delivering financial services to the poor. Guillermo Rondón and Danilda Almánzar Díaz from ADEMI Bank kindly shared their time and insight.

Javier Martín Cavanna and Juan Luis Martínez from Instituto de Empresa Business School in Madrid connected me with ADOPEM and provided invaluable guidance and feedback. Javier's advice, encouragement and multiple draft reviews were fundamental to the development of the case study. Juan Luis' passion for teaching and technical ability to teach the case study method in the classroom were an inspiration.

Kim Wilson from Fletcher proposed the case study idea, was a tremendous influence and supported this study in countless ways. Matt MacGregor, Matt Griffith and other Fletcher students provided valuable feedback. Juan Manuel Díaz from Step Consulting, Marina Ortiz from FondoMicro, Armando Muriel from Nodus Consultores, Maria Belén Effio from MicroRate and Roberto Mizrahi from Sur Norte Inversión y Desarrollo have provided valuable advice and comments. Sandra Darville, Susana Garcia-Robles, Tomás Miller, Sergio Navajas and Edgar Rivera from the Inter-American Development Bank/Multilateral Investment Fund have been a constant source of guidance, ideas, materials and motivation.

Finally, I would like to thank my parents, Nancy and Jack Chambers, for their enduring support and comments.

# ADOPEM Bank: Savings Post-Transformation

## Microfinance in the Dominican Republic

---

As 2007 is coming to a close, ADOPEM Savings and Loan Bank (“ADOPEM Bank” or “the Bank”) has much to celebrate after three years operating as a regulated bank. For this leading institution in the Dominican Republic microfinance sector, 2008 looks promising as well. The Bank’s ambitious plans for the coming year include: the expansion of its Solidarity Group lending program; the unification of its savings and loan technological platforms into one software system; the roll-out of a series of remittance products linking savings to productive investments such as housing, education, and starting a business; and the issuance of the final US\$4 million local currency equivalent of the institution’s US\$9 million subordinated bond issue in two tranches to local and international investors.<sup>1</sup>

The most pressing concerns for Executive Vice President Mercedes Canalda de Beras-Goico (“La Licenciada”) in December 2007 are not those of the typical bank. However, as a regulated microfinance bank whose niche market is the poor, ADOPEM Bank is neither a typical bank nor a typical microfinance institution (MFI).

ADOPEM survived the economic crisis that hit the Dominican Republic in 2002-2003 in the middle of its transformation from a nongovernmental organization (NGO) to a bank. Even so, La Licenciada and ADOPEM Bank face an important decision in December 2007: how should the Bank’s strategy evolve to market its savings products heading into 2008? With the sounds of merengue and the spirit of the holiday season filling the warm, Caribbean air in Santo Domingo, she wonders what the best strategy is and how she should present it to the Board of Directors at an upcoming monthly meeting.

### Origins:

In 1982, ADOPEM began as a small NGO in Santo Domingo with the mission to promote the economic development of Dominican women and integrate them and their families into the formal economic system by providing financial services and training, within a framework of ethical values, looking to benefit society at large. **(See Exhibit 1 for map of the Dominican Republic.)** ADOPEM Bank is a leading affiliate of Women’s World Banking (WWB), a premier international microfinance network headquartered in New York. A dedicated, local group of 16 professional women, pioneers in social enterprise, started ADOPEM led by La Licenciada’s mother, the renowned Dr. Mercedes de Canalda (“La Doctora”). La Doctora continues to serve as president of the Bank and its board of directors.

La Doctora and La Licenciada, mother and daughter, form a complementary, dynamic duo. Together they guide the Bank. In La Licenciada’s words:

---

<sup>1</sup> In 2006, ADOPEM became the first institution to issue subordinated public debt in the Dominican Republic as well as the first MFI in the country to issue public debt. As of July 2007, Fitch rated ADOPEM’s subordinated bonds ‘BBB’, an upgrade from the previous ‘BBB-’ rating.

*La Doctora Canalda formed the institution with a group of her friends 25 years ago to work in favor of women and to fight poverty. She has great vision. She organized charitable activities (bingo, raffles, fashion shows) and hired Juan Luis Guerra 4-40 before they were famous. The band sang the commercials that appeared on television to raise the [start-up] capital of the institution. They collected 25,000 pesos, which at that time was US\$25,000, and deposited it into a regulated financial institution and leveraged it three-to-one. This is how the institution's loan program began.*

*Afterwards, the institution began to grow. The 1980s were very difficult because it was a decade in which people didn't believe in or know about microfinance. The 1990s was much stronger, easier...ADOPEM started a program with the support of many institutions like the IDB, USAID, GTZ that provided specific funds for lending and institutional strengthening that allowed us to grow.*

While ADOPEM NGO was pleased with this growth, the institution knew it faced constraints. As an NGO, ADOPEM was not able to fully meet client needs because it could not capture deposits. Furthermore, it was dependent on donor funds and subsidized loans from international development institutions, primarily in foreign currency. As the value of these loans fluctuated relative to the Dominican peso, ADOPEM bore the foreign exchange risk often resulting in a loss.

### **Growth & Financial Performance:**

ADOPEM has been strengthened with local and international support since opening its doors in 1982. "El Banco de la Mujer" (the Woman's Bank) as it is known locally, has grown to become a mature and financially self-sufficient bank. Through December 2007, ADOPEM Bank has Total Assets of US\$33 million, a Gross Loan Portfolio totaling US\$26 million, and Total Savings of US\$11.9 million according to data from Women's World Banking.

ADOPEM is particularly known for its steadfast commitment to serving poor Dominican women. ADOPEM NGO, or the "Training Center," continues to operate and is conveniently located next door to the bank. It provides a wide array of courses and training programs in financial literacy and business that are an important complement to the bank's financial services. ADOPEM NGO is the bank's largest shareholder, currently with 70% ownership, and the two organizations mutually benefit from their strong relationship. **(See Exhibit 2 for ADOPEM Bank's ownership structure, boards of directors, and organizational chart.)**

ADOPEM has developed a strong credit methodology, designed specifically for microfinance clients, that is based on both quantitative and qualitative analysis. This is complemented by a sophisticated technological platform and internal risk control system. In 2005, ADOPEM Bank was one of the first MFIs worldwide to use Palm Pilots for credit analysis, and it continues to enhance its technology. Important to the successful switch from a paper-based system to an electronic one was its implementation. La Doctora, La Licenciada, and other executives internally demonstrated the benefits of using these handheld devices, motivating staff to use the same new technology their leaders were using. The Bank's continuous focus on risk management not only helps efficiency and productivity, but also facilitates monitoring the more complex risks now involved with capturing deposits.

As of December 31, 2007, ADOPEM Bank had 330 total staff, 24 branch offices nationwide, and some 61,000 borrowers and 51,000 savers. Within the sub-sector of development and microfinance banks, ADOPEM Bank ranks first in number of loan clients and second in gross loan portfolio size. These rankings for its principal competitor, ADEMI Bank, are reversed: ADEMI Bank ranks first in Gross Loan Portfolio with US\$122 million and second in number of loans clients with 47,000. Through September 2007, ADOPEM Bank's assets represented 7.3% of this sub-sector and 0.19% of the total regulated financial system.

ADOPEM has historically maintained high loan portfolio quality with a low average portfolio-at-risk (PAR) > 30 days of 3.18% since 1998. PAR>30 days for 2007 was 3.78%. As a bank, ADOPEM has remained a regional industry leader in depth of outreach. In 2007, its average loan balance per borrower was just US\$420 and females represented 80% of borrowers. ADOPEM Bank is highly profitable with an ROE of 34% and ROA of 7.7% in 2007 and has conservative levels of reserves and adequate capitalization. However, liquidity is tight and efficiency has not been as strong due to high and increasing operating costs. The operating cost ratio was 25.7% in 2007. **(See Exhibit 3 for financial and social performance data 2001-2006 & Exhibit 4 for financial statements.)**

### **The Dominican Economy, Banking Sector and the Competition:**

In 2006, GDP increased a notable 10.7% in the Dominican Republic, the highest rate of growth in the previous 19 years. Importantly, GDP per capita also increased by 9.1%. This economic growth was led by internal demand, which favors ADOPEM Bank's orientation toward productive lending to its niche market of micro and small-scale businesses: the microenterprise segments made up 70% of the Bank's loan portfolio in 2006, and, together with small business, constituted 95%. Some of the most common small-scale enterprises in the Dominican Republic include beauty salons, "colmados" (corner stores), "tiendas de fantasia" (variety stores that sell "un chin" -- a little bit -- of everything), food production and sales, handicrafts, carpentry, mechanical repair, and clothing sales. Colorful "loterias" or lottery booths are ubiquitous (the Bank does not make loans for them) and often constitute a second business for small-scale entrepreneurs.

ADOPEM Bank compares favorably with institutions in the regulated financial system in the Dominican Republic and with the microfinance sub-sector that is composed of both regulated and unregulated MFIs. The Dominican banking sector and the microfinance sub-sector have become increasingly competitive, which drive innovation, lower costs, and ultimately benefit clients. While ADEMI Bank is still ADOPEM Bank's top competitor, an increasing amount of competition in the microfinance sub-sector in the last few years is coming from new, unregulated players, especially cooperatives which number around 30.

Competition also comes from do-it-yourself models like informal savings and loan clubs as well as from state-run microfinance programs. State-run programs threaten ADOPEM Bank and its competitors when they seek to win clients and votes with subsidized loans, place limits on interest rates, and make false promises. The upcoming presidential election in May 2008 could undermine the Bank and the microfinance industry's progress by flooding the market with low-interest credit and no plan for disciplined collection. ADOPEM Bank views increasing competition as healthy for the industry and for microentrepreneurs. However, it means that the Bank's financial margins could continue to shrink in parallel with interest rate spreads. Regulated financial institutions in the Dominican Republic can compete little on interest rates, currently at historically low levels. **(See EXHIBIT 5 for interest rates.)**

## **Potential Market**

While the microfinance sector in the Dominican Republic has experienced strong growth, the unmet demand for financial services from low-income populations is huge. The Dominican Republic is a small nation in the Caribbean with a population of 9.6 million and is 65% urban. The economically active population (EAP) is over 4 million: 2.7 million males and 1.4 million females. ADOPEM Bank now serves 2% of the economically active female population.

The Dominican Republic shares Hispaniola island with Haiti and an increasing number of Haiti's 9.3 million residents are crossing the border to do business in the Dominican Republic, making them potential clients. There is a high incidence of informality in the Dominican labor market: in the urban labor market alone, a total of 2.26 million workers operate informally.<sup>2</sup> According to La Doctora, there are some 600,000 microenterprises in the Dominican Republic.

In addition, the unemployment rate is 16%, illiteracy for people over 15 years of age is 15%, and poverty is widespread, which has been exacerbated since the 2003 crisis. National poverty is 47.5% and national indigence is 24.6%, and both are higher in rural areas. These rates are above the regional average in Latin America of 39.8% poverty and 15.4% indigence. National income distribution is highly unequal: the national Gini coefficient is 0.57, and the poorest quintile receives only 2.6% of total national income while the richest quintile receives 60.9%.

## **Typical Loan Client**

ADOPEM Bank's typical loan client is a microentrepreneur with a minimum of one year's experience in managing his or her business, who works alone or with up to ten people, and demonstrates initiative, business aptitude, and adaptability. **(See Exhibit 6 for the loan portfolio and product descriptions.)** The microentrepreneur has a permanent need for working capital. The profile of the Bank's average loan client is a poor female microentrepreneur who has attended primary school, is between 30-50 years of age, works in the service sector and begins her enterprise in her home. A large number of clients are single mothers who are separated from their husbands and develop some type of commercial activity to maintain their families. Some men divide time between multiple families, leaving their wives to bring up children alone. Women often involve other family members in the business and they tend to spend a higher percentage of income on productive purposes than men. La Licenciada points out:

*Research has shown that for every 100 pesos earned by a woman, she will put 70 toward her family – food, education for her children, or housing. Men by comparison give 30.*

A 2005 WWB study in the Dominican Republic shows gender is tightly correlated with poverty and that women are poorer than men. Women also tend to diversify into more businesses than men to smooth their income stream. However, this diversification can also limit business growth. Typically, women manage household expenses and adopt various savings strategies, including ones for emergencies and other contingencies. Women tend to be better savers than men, and save more frequently and in smaller amounts from both their businesses and their household funds. Men usually save less often, in larger quantities, from their business income, and for a particular purpose, but not typically for unforeseen events.

John Hatch, founder of FINCA and creator of the Village Banking microcredit methodology notes:

*Women are all in the same business – educating their children, caring for their families and ensuring enough food is on the table.*

In November and December, in partnership with ADOPEM NGO, the Bank sponsored a series of personalized “chats” to orient and support clients devastated by Tropical Storm Noel that hit the island at the end of October. These conversations were part of a larger program that includes an emergency loan fund,<sup>3</sup> training, and therapy. More than 500 clients, representing 0.84% of ADOPEM’s total loan clients, were affected. They lost their homes, their businesses, and some of them also lost family members, and friends. Psychologist Hector Rodriguez led the dialogues, each one slightly different based on the size and dynamics of the group, but all of them had the same purpose. “*When you’re sad, you don’t think*” Hector explains to the clients with both conviction and grace, “*Try to make an effort to overcome the sadness and leave this meeting with clear ideas about how you’re going to reopen your business and move forward.*” Clients shared their stories and advice, providing each other with the motivation to continue. One woman bravely explained how, overnight, she went from losing her “colmado” (corner store) to selling food and drinks on the street to make ends meet until she could reopen her store. Hector concluded one chat by saying: “*What does the tropical storm teach us?*” “*We have to develop the awareness to save for the bad times.*”

Clients are grateful for the opportunities ADOPEM has provided them and are very loyal. Many have been with ADOPEM for years and have grown along with it, taking out increasingly larger loans to expand their businesses or to diversify beyond one sector. ADOPEM added the small enterprise loan to accommodate the needs of its clients who had outgrown the smaller sums offered by the microenterprise loan products. Clients speak favorably about ADOPEM, a good thing since Dominicans are particularly loquacious. Clients are both ADOPEM’s greatest sales force and biggest competitive advantage. Many new clients first learn about ADOPEM through their family, friends, and neighbors who are current customers and who often accompany them on their first visit. Even when some “graduate” and meet the qualifications to access financial services at more traditional establishments, often with more attractive rates, many choose to stay with ADOPEM or to keep at least one account with the institution.

### **Transformation**

ADOPEM transformed from an NGO into a regulated bank to be able to capture deposits. The institution wanted to do this for a number of reasons: to offer a broader, more complete range of financial services to its low-income clients; to finance and grow its loan portfolio; to access local, potentially lowest-cost financing from people of all income segments; to diversify funding sources and increase access to commercial sources of funds locally and internationally; to reduce dependence on donations and subsidized loans from international financial institutions; and to obtain a defined ownership structure. At its core, transformation is a process of managing profound change within the MFI. It is a complex process, very costly, and not easy on anyone. It represents a shift to the formal financial sector and coming under the strict regulation and supervision of the Banking Superintendency and the Central Bank. La Licenciada notes:

---

<sup>3</sup> The emergency loan fund approved by the Board of Directors provides tiny loans for 1,000-5,000 pesos (US\$30-150) for a longer period (up to 18 months) at a lower interest rate (~18% annually) than normal loans. The idea is to provide rapid and effective support to help clients start working again.

*It's different to work as a regulated institution. A regulated institution requires manuals, work that is more formal, more punctual, more demanding. There comes a moment as an NGO that you're just average, whereas as a bank, you have to distinguish yourself.*

ADOPEM NGO began its transformation in 1999 with a technical evaluation of the institution and completed the process at the end of 2005 when the entire loan portfolio had been transferred from ADOPEM NGO to ADOPEM Bank,<sup>4</sup> which at the time consisted of 12 branches and three agencies operating as banks. In between there were many steps, some executed with external support from WWB and other organizations. ADOPEM conducted market studies on savings, banking regulation and supervision, and costs. It trained personnel and designed savings products, promotional materials, and job descriptions. ADOPEM had to negotiate with the regulatory authorities and solicited legal advice and authorizations. It implemented new systems for information, technology, and evaluation. Over time, all the MFI branches converted into bank branches.

Capturing deposits created a more complex business model for ADOPEM and changed the institution completely. When it was a lending-only institution as an NGO, ADOPEM assumed the risk when making loans to clients; the institution had to trust its clients. With savings, the roles are reversed; the saver takes the risk when depositing money into a financial intermediary. The client therefore, has to trust the institution. Risk management is more complex and requires prudent financial management to match assets and liabilities and to manage liquidity. Savers with demand deposits can withdraw at any time, which affects funds available for lending. While ADOPEM transformed into a financial intermediary and changed profoundly, it did not change fundamentally. ADOPEM has maintained its focus on serving low-income female borrowers, holding true to its mission and founding principles.

### **2002-2003 Dominican Financial Crisis Hits Mid-Transformation**

Transformation under normal circumstances is demanding and risky but a banking crisis can derail the effort completely. The “Dominican Financial Tsunami” as it is called colloquially, began as an exchange rate crisis in 2002 and resulted in a full-blown national economic crisis. It hit ADOPEM NGO in the middle of its transformation: ADOPEM converted to a bank in July 2003, precisely when the crisis struck, operating initially under the name Banco de Desarrollo del Valle (BDV).

ADOPEM NGO turned this challenge into an opportunity. Instead of creating a greenfield microfinance bank as planned, it purchased BDV, located in the city of La Vega. Given the crisis, this was easier than applying for a new banking license from the Banking Superintendency. La Vega later became the site of the pilot program to introduce savings. La Licenciada remembers the occasion, an unprecedented move in microfinance:

*When La Doctora saw that the financial tsunami struck, she believed we had to search to maintain our final objective [transforming to a bank] but change the strategy...changing strategy meant buying a bank.*

After visiting many large and small banks for sale, ADOPEM NGO decided to purchase BDV because it had three important advantages: a social mission, small size, and in compliance with the law. It also provided a valuable infrastructure. Changing strategy coupled with ADOPEM NGO's

---

<sup>4</sup> The loan portfolio of ADOPEM NGO was exchanged for 88% ownership in the bank.



microcredit experience, strong balance sheet and industry best practices enabled it to maintain its original vision of becoming a full-scale bank able to capture deposits despite the stricter banking regulations and the ravaged economy.

Still, the process was difficult and lengthy. At the end of 2003, ADOPEM did not yet have a guarantee it would be permitted to operate at the national level or move headquarters from La Vega to Santo Domingo. Then in July 2004, ADOPEM received authorization to move its main office to the capital. In December 2004, a year and half after transforming, ADOPEM received final approval to operate under the name ADOPEM Savings and Loan Bank (in the meantime it operated as BDV).

The crisis again provided an opportunity, this time for hiring people to complement ADOPEM's own microcredit staff, since many in the banking sector were left unemployed. La Licenciada recalls:

*I was able to select the best people and put together a good team, which I have now. They are people who really identify with the work, are professional, committed, and hard-working. I think this is one of the greatest strengths of the institution.*

Transformation produced a new corporate image and a defined ownership structure. ADOPEM Bank's strategy is to continue to decrease the stake of ADOPEM NGO, currently at 70%, to 48% by 2009, to diversify and increase its equity base by attracting local and international shareholders who identify with the mission, bring experience and technical skills, and offer a fresh, external perspective.

### **Leadership**

La Licenciada is as personable as she is efficient, and effective as a communicator, both critical in managing personnel and day-to-day activities at ADOPEM Bank. She skillfully rattles off stories and statistics without pausing to think, demonstrating her knowledge of the institution, the industry and clients after fifteen years working at ADOPEM. She is equally at ease talking with the poor as she is talking with senior management from international organizations such as Citibank and WWB. However, La Licenciada says, it is the clients who inspire her most. ADOPEM Bank is a leading affiliate of WWB and La Doctora is chairperson of its board of trustees. In addition to her tireless leadership and vision, La Doctora is also an expert negotiator.

One minute, La Licenciada is engaged in a lively conversation with a poor woman, who proudly pulls out money hidden neatly inside her shirt. She is on her way to the bank to make a loan payment. La Licenciada takes advantage of the encounter to skillfully recommend that she open a savings account. The next minute, La Licenciada is speaking to a Vice President of the World Bank. He is visiting the island to talk to people devastated by Hurricane Noel and to learn about the emergency loan program and support services ADOPEM Bank and ADOPEM NGO are offering.

A natural leader, La Licenciada engages people instantly when she speaks. She talks in a motivating, spirited way with the speed of a "moto-concho," a popular two-seat motorcycle in the Dominican Republic. These motorcycles, along with their two-toned sisters, the "conchos," transport ADOPEM Bank's loan officers daily to remote areas throughout the country to visit clients, particularly the poorest ones, who are members of Solidarity Groups. "Conchos" are used cars that follow predetermined routes and function as a cross between a taxi and a bus, with no limit as to how many people can pile in for a ride. They also serve as a good test of flexibility, especially if you are tall.

La Licenciada effectively manages her many responsibilities with ease and a smile in a dynamic, ever-changing work environment. She oversees a staff of 330 people, who are genuinely happy to be working at the Bank and identify with the mission. She would make an excellent economics teacher in public schools for mistreated children, a childhood dream of hers.

The growth, reach, and reputation of ADOPEM Bank are indisputably due to the people who are the face of the institution: high-quality employees, management team and board of directors. The people are the Bank's greatest asset. The mother-daughter dynamic duo of La Doctora and La Licenciada has been fundamental to ADOPEM's success over the years but one day they will each move on.

### Savings

Since introducing savings at the beginning of 2005, ADOPEM Bank's total savings has grown to US\$11.9 million at the end of 2007, distributed among more than 51,000 total savers. **(See Exhibit 7 for savings growth.)** The Bank is positioned to scale-up savings and reach more clients. It plans to continue opening new branches, which currently number 24.

Offering savings was ADOPEM Bank's first step in becoming a "one-stop shop" for clients by offering a full-range of financial products and services that also include remittances, microinsurance, micropensions, housing loans, payment transfers, foreign exchange, and debit cards. Savings provide an important service to clients and source of funds to the Bank. Deposits finance an increasing percentage of the Bank's assets, and currently finance 43% of the loan portfolio. The growth in the deposit base has been complemented by ADOPEM Bank's successful bond issue to domestic and international investors: both provide locally-sourced funds and help deepen the local capital markets.

At the same time, capturing deposits created a more complex business model, requiring prudent financial management. Similar to its gateway role as a product, savings was also the beginning of the Bank accessing new sources of commercial capital and diversifying its liabilities and ownership. The client base was also diversifying. For loans, ADOPEM was still targeting low-income clients, especially the poor. However, for savings, ADOPEM was targeting clients of all income levels, both individuals and institutions.

Now, La Licenciada and the Bank face an important decision heading into 2008. How should ADOPEM's overarching strategy evolve to market savings? More specifically, should ADOPEM continue to increase savings using only its current loan officers (as well as management and the board) or should it also have an exclusive sales force for deposits?

Surrounding this decision are a number of important considerations. Is a savings client the same as a loan client? How does savings mobilization affect ADOPEM's corporate image? Which savings product should ADOPEM promote more? What type of liquidity risks does ADOPEM face and how can they be mitigated? What flow of deposit mobilization and making loans is best to have a positive development impact? How might these issues affect the mission, which has been fundamental to ADOPEM's success since it began 25 years ago?

#### ❖ *Savings and the Poor*

Contrary to popular belief, the poor can and do save. The poor need to save because a larger share of their income is spent on basic survival and they are more vulnerable to income fluctuations. Ellen

Seidman from Shorebank Corporation notes that savings bring psychological benefit to poor families, particularly for the next generation: *assets are hope in concrete form.*

The poor save in a variety of ways: they take cash from their business profits; they limit consumption; and they bargain down prices at the local market. They save at varying intervals, in different amounts, and in diverse ways. They save for a variety of purposes: to pay for school fees and wedding expenses and for more unexpected events like health problems and losses from natural disasters. For expected events, the poor want illiquid savings -- savings difficult to convert to cash. For unexpected events, they want liquid savings -- savings easily converted to cash. To deal with expected and unexpected events, then, the poor would want a blend of savings instruments.

The poor tend to save informally since they are largely excluded from formal financial services. Informal savings are very important to the poor, but they have a number of disadvantages compared to formal savings. These disadvantages include unreliability, lack of security, lack of opportunity to integrate into the formal financial system, and not paying interest (sometimes the poor even pay to save). In the Dominican Republic, the poor save in piggy banks, in the form of jewelry, by purchasing cement blocks, by lending money (and earning a return), and through the informal SAN, a savings group popular throughout the country among all income groups.<sup>5</sup> The high prevalence of the informal SAN and other informal savings mechanisms among the poor demonstrate the fundamental role of savings in their lives and why they need formal savings products. When designed properly, formal savings products offer important advantages over informal ones – more convenience, more flexibility, more reliability, and more security.

Cecilia Ramón, Manager of Deposits, sums it up in a statement of universal truth when she says: *Saving is a matter of organization, planning and awareness.*

#### ❖ *Introducing Savings*

With support from WWB, ADOPEM carried out market studies to determine the supply and demand of savings in the Dominican Republic (**See Exhibit 8 for market research**). The challenge for ADOPEM in offering savings products was not to teach the poor how to save but to offer products that fit their needs and encourage them to save. The market research concluded that 80% of ADOPEM's loan clients did not save in commercial banks because the financial products these banks offered did not respond to their needs.

Cecilia recounts how ADOPEM began the process to introduce savings in 2003 and some of the discoveries:

*We obtained information through focus groups with different profiles. We chose the samples – with clients, with non-clients, by sex, by age, by different economic segments – to really see what our clients, who were the initial market we were going*

---

<sup>5</sup> An informal SAN (a.k.a. ROSCA or other names) is the name used for an informal savings group in the Dominican Republic. Individuals form a group and each member makes regular deposits to a common fund for a pre-determined period of time that one person manages, often earning money to do so. During this period, each member takes a turn, often determined by lottery, and accesses the entire lump sum. The informal SAN is very popular in the Dominican Republic and is used most by women.

*to target, were interested in, what they thought of the products, and what they were looking for in a savings institution.*

*The few clients who had passbook savings in formal institution had the most in the associations because they are more traditional and conservative than other financial institutions. The other clients saved informally in a little can in their house, in a jacket that the husband no longer wore, or under the mattress, but they saved. The poor have savings and want savings.*

In choosing savings products, Cecilia and ADOPEM learned that the most important qualities their clients valued were security and flexibility; earning a return was less important. She explains:

*What was most relevant was that when they wanted their money they had it, not profitability. That they received fast service, were treated well, and felt comfortable in the sense that they are poor people -- sometimes shy, sometimes afraid to go to institutions. Sometimes they feel nervous when they come here because they aren't used to working with formal institutions.*

#### ❖ *Current Savings Products*

ADOPEM currently offers three savings products: Passbook savings (Normal savings), ADOPEM SAN (Programmed Savings), and Certificates of Deposit (CDs). All three are available to anyone, with the first two targeted toward lower-income clients and the CDs to higher-income clients. **(See Exhibit 9 for description of current savings products.)**

- **Passbook Savings (Normal Savings):** The passbook savings account offers clients full flexibility in terms of deposit and withdrawal amounts, their frequency, purpose, period of time. An account is opened with US\$7.50 and US\$0.75 is required to keep the account open. The account earns 5% interest annually, which is paid weekly on the average account balance.
- **ADOPEM SAN (Programmed Savings):** The ADOPEM SAN is based on the informal SAN, but this formal version is an individual product. Each client establishes a personalized plan to save for a specific purpose for a set period of time, between 6-12 months. It pays 5.5% interest annually on amounts up to US\$1,500 and 6% for sums exceeding this amount. The ADOPEM SAN is more flexible than the informal SAN and offers other advantages. The client is not at the whim of other savers fulfilling their promises to make deposits, which provides greater security. In an emergency, a client can withdraw the balance before maturity. In the event that the total amount, or part of it, is withdrawn early, the account converts into a normal savings account. When this happens, ADOPEM follows up with the client to find out the reason, which is normally a problem that arises unexpectedly. ADOPEM's close client relationships, along with the type and detail of information collected, make this possible. When the circumstances improve, ADOPEM motivates clients to reopen an account and save for precisely these types of contingencies.
- **Certificates of Deposit (CDs):** The CDs are designed for both individuals and institutions. They are opened with a minimum amount of US\$75 for at least 30 days. They pay 6-9%

annual interest, depending on the amount and the term, the latter being the usual determining factor.

❖ *Marketing Savings*

ADOPEM Bank's primary approach to promote savings (passbook savings and ADOPEM SAN) to low-income clients is oriented around a family problem arising. Cecilia points out:

*There are other advantages and motives ...but we focus on this the most since there is a direct connection between the family unit and the economic unit of our clients...everything that positively or negatively affects the family has the same impact on the business. A contingency in the family can cause the business to disappear overnight.*

The current marketing strategy for savings has three main components:

- The loan officers actively promote savings to their clients.
- In conjunction with ADOPEM NGO, the Bank sponsors an annual program consisting of a series of "chats" en masse where each month ADOPEM Bank and ADOPEM NGO go together to a different community. Both clients and non-clients are invited. ADOPEM encourages its clients to bring someone – a relative, a neighbor, a friend – so that they can become familiar with the institution and its products. The chats double as a feedback session for ADOPEM where the clients also share their experiences, their progress, their concerns, their suggestions, and their complaints.
- Brochures that explain each product.

Education and training are an integral part of ADOPEM Bank's financial services. One way the Bank promotes savings is teaching its clients how to organize themselves to save. The Bank also encourages clients to take advantage and save when coming to a branch office or meeting with an officer in their place of business concerning a loan transaction. This way, they do not have to use extra time or money to save. This is one way the Bank aims to instill discipline and foment a savings culture to save for that unexpected event and spend wisely. As Cecilia describes it: *the poor like to save but it's not easy.*

Enter any branch office in December and the first things you notice are an oven and a microwave neatly wrapped in plastic topped with an orange and blue bow, ADOPEM's colors, and a sign promoting savings. Targeted yearly promotions take place in each branch office, linked to holidays and special occasions. Clients receive a small prize or are eligible to participate in a raffle if they make deposits of a small, specified amount (e.g. US\$3), open a savings account, or maintain a minimum balance (e.g. US\$45). During 2007, there were four promotions: a Mother's Day raffle for washing machines; a raffle for technical training courses; ADOPEM notebooks and pencils for "Back-to-School;" and a Christmas raffle for ovens and microwaves. Except for the notebooks, these promotions are also for loans, but the focus is on savings.

The loan officers have goals linked to compensation that provide incentives, such as the number of new accounts opened, total number of accounts, and total portfolio amount according to the type of client portfolio. The officers regularly meet their savings targets. This achievement can also be attributed to how ADOPEM carried out its internal training program. ADOPEM's strategy was

similar to the one it used with Palm Pilots. The principal executives held meetings and informal gatherings to show the loan officers the benefits of savings for all parties involved: the client, the officer, and the institution.

Currently, 75% of ADOPEM's clients have both savings and loan products. ADOPEM offers housing loans, began to offer microinsurance in 2007,<sup>6</sup> and will begin offering remittance services in 2008. In addition, ADOPEM is carrying out a pilot program in the head office in Santo Domingo to disburse loans through savings accounts instead of by check, which should increase this percentage. This means that clients can withdraw the loan proceeds with their debit cards from any one of the Bank's 545 ATMs throughout the country.

#### ❖ *Challenges Marketing Savings*

Nonetheless, marketing savings still has its challenges. For example, when a loan officer visits clients, he or she also promotes the savings products as a way to save for things such as emergencies, their children's education, and investing in their businesses. However, when a client comes to the office later to withdraw the loan proceeds, he or she isn't thinking about opening a savings account but is interested in getting the money.

In addition, Cecilia notes:

*You have to explain the savings products well because sometimes the clients don't understand, even when they are signing the documents...they think the savings account is part of the loan. You have to take the time so that they understand. Then, when they do they say 'oh that's great, I hadn't received one,' or 'I wanted to open an account but I couldn't find a place where I could.'*

*It's a new product. It has been hard to make the loan officers assimilate that there are two products because they have worked so long with only loans... Their job is arduous. There are many phases in lending and it takes the loan officers a lot of time because here they do the whole lending process, from promotion to recovery...When you are accustomed to selling loans, although you don't want it to, in one way or another the selling style you're used to comes through.*

*The majority of the time the loan officers are concentrating on lending ... You have to make a big effort and really insist so that they are able to see savings on the same level ...*

#### ❖ *Marketing CDs*

ADOPEM's CDs are targeted to higher income clients and have largely been marketed through telephone calls and visits by management and staff to their networks of individual and institutional contacts. The growth in CDs has been slower than the passbooks savings and ADOPEM SAN in number of clients, but this wasn't the case in amount. In terms of liquidity, it's not the same for ADOPEM to have one CD worth US\$1,500 as it is to have 200 passbook savings and ADOPEM SAN accounts worth US\$7.50 each. Maturities also matter and most deposits were short-term.

---

<sup>6</sup> ADOPEM began offering microinsurance (life) to its clients in February 2007. Through November 2007, it had a total of 3,080 clients distributed among 22 branches, and 70% of them were female.

Attracting customers requires creativity since regulated financial institutions in the Dominican Republic can compete little on interest rates, which have been falling since 2005. Promotional activities are different: the Bank can't use the back-to-school notebooks and washing machines to promote CDs. On the other hand, the loan officers might be able to wear the same business attire when taking a moto-concho into a poor neighborhood to see a beautician about opening an ADOPEM SAN account as they can when visiting one of the leading commercial banks, such as Banco de Reservas, about opening a CD. However, as Sonia Reyes, Vice-President of Finance & Operations, points out, *the clients for CDs have a different profile. It's not the same treatment.*

ADOPEM received training during transformation from CMAC Arequipa (Caja Municipal de Ahorro y Crédito Arequipa), a leading MFI in Peru that is highly developed in savings. Cecilia explains:

*CMAC Arequipa has a very different model than we have put into practice. Its loan clients aren't its savings clients. Only 4% of its clients have both savings and loans. CMAC has basically the same number of clients for savings and for loans and clients from all profiles for both products, from low income to high income. They are only different people.*

#### ❖ *Development Impact*

ADOPEM Bank is poised to increase savings and provide financial services to even more clients in urban and rural areas. Considering the Bank's mission is oriented toward developing the Dominican family and benefiting society in general, having a positive development impact is important. The Bank plans to expand its Solidarity Group lending program nationwide in 2008 and aims to reach areas where no formal institution has yet entered. Expanding this program further in rural and semi-rural areas is one of ADOPEM Bank's goals and will be one of its greatest challenges. These remote areas are the hardest to reach, poverty is the most extreme, and there is the least penetration. ADOPEM Bank was one of the few MFIs that had reached some of the country's poorest residents with its Solidarity Group loans, its competitive advantage. This product is distinctive because no other institution in the Dominican Republic has the Bank's combination of credit methodology, technology, training, structure, and desire to reach this segment with subsistence credit. To have a positive development impact, the Bank must consider what matters most: from whom and where geographically it is mobilizing deposits, and where it is making loans.

### **The Savings Decision**

ADOPEM Bank has much to celebrate besides the Christmas season in December 2007. The Bank's savings have grown rapidly to US\$11.9 million distributed among more than 51,000 total savers for the three products. Savings now finance 43% of the loan portfolio, which is approaching US\$30 million. The number of loan clients is on track to reach the goal of 75,000 clients in 2008. **(See Exhibit 10 for ADOPEM Bank's consolidated savings indicators.)**

While some MFIs fall victim to mission drift over time, ADOPEM Bank's achievements are largely due to an unwavering focus on serving its niche market, poor females and their families. The Bank is positioned to continue its leadership role in advanced technology, which will help to deepen its outreach. In addition to the unification of its technology platforms, planned for 2008 is the

expansion of Palm Pilots to Solidarity Group loans and the introduction of credit scoring<sup>7</sup> into the Palms to speed up loan approval.

Nonetheless, for this forward-thinking institution and one of Latin America and the Caribbean's leading MFIs, there is little time for celebration aside from holiday merengue dancing, another area in which ADOPEM Bank excels.

Cecilia explains:

*When we began and until now, we have been working primarily with our same clients. But we know that this is only one stage.*

*Last year we evaluated potential promoters who have a different profile than our loan officers who would sell savings to non-clients. The officers would continue to work with current clients.*

*This is being considered, creating this team of exclusive advisors for deposits. It's not totally defined...this is a decision that has to be made. We have created various scenarios, for example:*

- *Have people with a higher profile, exclusive for CDs, and look for people with a lower profile for savings.*
- *Have people with an intermediate profile that can handle both savings and CDs.*

It is precisely challenges such as this one that ADOPEM has time and again managed so well. ADOPEM's vision, along with careful strategic and financial planning, has catapulted the organization to widespread national recognition and worldwide prominence in the microfinance community, differentiating it from other institutions. As ADOPEM Bank continues to grow, hire personnel, and introduce new products and technologies, it must decide how its strategy will evolve to market savings. Should ADOPEM have an exclusive sales force for deposits? Heading into 2008, La Licenciada and Banco ADOPEM must determine once again how to transform this challenge into an opportunity.

---

<sup>7</sup> The Credit Scoring system is a personalized system (it has been implemented in Colombia) designed specifically for microenterprise clients. It is based on each client's loan payment history with ADOPEM, beginning with the first loan. It will include all loans taken but won't include loans taken from other institutions. It will provide data both at the client and the portfolio levels. The capability will allow for automatic approval of repeat loans and potential approval of small new loans.



## **Bibliography**

Berger, Marguerite, Lara Goldmark and Tomás Miller, ed. *An Inside View of Latin American Microfinance*. Washington, DC: Inter-American Development Bank, 2006.

Banco de Ahorro y Crédito ADOPEM, *Memorias Anuales 2004, 2005, 2006*.

Banco de Ahorro y Crédito ADOPEM, *Situación de la Tormenta Noel*, Noviembre 2007.

Banco Central de la Republica Dominicana. Accessed January-March 2008. Available from [www.bcrd.gov.do](http://www.bcrd.gov.do).

Banco Central de la Republica Dominicana, *La Informalidad en el Mercado Laboral Urbano de la Republica Dominicana*, Republica Dominicana 2007.

CEPAL, *Anuario Estadístico de América Latina y el Caribe*, 2006.

Diaz Parrondo, Juan Manuel and Dana E. Tidikis. *Introducción de productos de ahorro en una entidad de microfinanzas en proceso de regulación: El caso de ADOPEM en Republica Dominicana*. República Dominicana. Fundación CODESPA and Un Sol Mon: (Draft), 2005.

Dieckmann, Raimar. Deutsche Bank Research, *Microfinance: An Emerging Investment Opportunity. Uniting Social Investment and Financial Returns*. December 2007.

Fundación Dominicana de Desarrollo, *Memorias 40 Años*, República Dominicana, 2005.

FitchRatings, Banco ADOPEM, July 2006, October 2007.

Hirschland, Madeline. *Savings Services for the Poor: An Operational Guide*, Kumarian Press, 2005.

Ledgerwood, Joanna, and Victoria White. *Transforming Microfinance Institutions: Providing Full Financial Services to the Poor*. Washington, DC: The World Bank, 2006.

McCarthy, John. "The Banker: The Banker Special Supplement: Dominican Republic – Potential to Tap – Dominican Banks Have Been Strong in the Corporate Sector but are Still Striving for the Custom of a Largely Unbanked Population, A Vast Number of Microbusinesses And a Share of the Buz," Factiva, February 1, 2007. Accessed November 2007. Available from Factiva.

MicroRate, ADOPEM, Informes al Diciembre 2002, 2004.

MicroRate and the Inter-American Development Bank, Sustainable Development Department. *Performance Indicators for Microfinance Institutions: Technical Guide*. Washington, DC: Inter-American Development Bank, 2003.

The MIX Market, Banco ADOPEM. Available from <http://www.mixmarket.org/en/demand/demand.show.profile.asp?token=&ett=159>. Accessed January-April 2007.

The MIX Market, 2007 Mix Global 100: Rankings of Microfinance Institutions, December 2007. Available from [www.mixmbb.org/Publications/001-IND/01-IND.ANLS/02-IND.ANLS.MFI/Global%20100%20Final.pdf](http://www.mixmbb.org/Publications/001-IND/01-IND.ANLS/02-IND.ANLS.MFI/Global%20100%20Final.pdf). Accessed January 2008.

Personal Interviews with management and staff, Banco ADOPEM, Dominican Republic, December 2007.

Personal Interviews with Tomás Miller and Edgar Rivera, Inter-American Development Bank/Multilateral Investment Fund, Washington, DC, January 2008.

Rutherford, Stuart. *The Poor and their Money*. Oxford, UK: DFID, 2001.

Seidman, Ellen. Shorebank Corporation. “Presentation: Optimal Capital Structure: The Role of Savings in MFIs.” Given at the Women’s World Banking and Morgan Stanley Microfinance and the Capital Markets Conference, New York, New York February 21, 2008.

Villaman, Ana. BHD Valores. “Presentation: Banco ADOPEM: Primera Emisión de Deuda Subordinada de IMF en la República Dominicana.” Given at the Women’s World Banking and Morgan Stanley Microfinance and the Capital Markets Conference, New York, New York February 21, 2008.

Women’s World Banking: [www.swwb.org](http://www.swwb.org).

Women’s World Banking, *Gender Study, The Capacity of Poor Women to Grow their Businesses in the Dominican Republic*, Women’s World Banking, New York, 2006.

Women’s World Banking, *Microfinance and the Capital Markets: Evaluating Strategic Opportunities. Profiles of WWB Network Member Institutions*, Women’s World Banking, New York, February 2008.

Women’s World Banking, *Using Palm Pilots to Manage Loans, Innovation Brief*. Women’s World Banking, New York, June 2005.

The World Bank, SEEPYD, BCRD, *La Informalidad en el Mercado Laboral Urbano de la Republica Dominicana*; Washington, DC: World Bank, 2007.

# Exhibits

## Exhibit 1– Map of the Dominican Republic



Source: [www.randmcnally.com](http://www.randmcnally.com)

## Exhibit 2 –Ownership Structure, Boards of Directors & Bank’s Organizational Chart

### ADOPEM Bank’s Structure of Shareholders’ Equity

<i>Through December 31, 2007</i>			
<b>Investor</b>	<b>Amount (RD\$)</b>	<b>Amount (US\$)</b>	<b>Ownership Share</b>
ADOPEM NGO	111,321,300	3,352,647	69.57%
Local Shareholders	30,679,600	923,973	19.17%
International Shareholders	18,023,700	542,817	11.26%
<b>Total</b>	<b>160,024,600</b>	<b>4,819,437</b>	<b>100%</b>

Notes: International Shareholders include the International Finance Corporation (IFC) and the European Investment Bank (EIB).

Exchange rate used: DR\$/US\$: 33.204.

Source: Sonia Reyes, Vice-President of Finance & Operations, Banco ADOPEM

**ADOPEM NGO - Board of Directors**

<i>Name</i>	<i>Title</i>
Mercedes de Canalda	President
Maritza Carvajal	Vice President
Claribel Díaz	Secretary
Melania Lorie	Treasurer
Dinorah Polanco de Sang	Member
Engracia Mejía	Member
Flavia González	Member
Norma Guzmán de Hnouri	Member
Jovina Diaz Hernández	Member
Trina Urbaez de Blandino	Member
Vilma B. de Pellerano	Member
Sofia Estévez	Member
Zaida Lovaton de Sanz	Member
Zunilda Paniagua	Member
Vilma de Fernández	Commissioner
Isaura Tejada	Substitute Commissioner

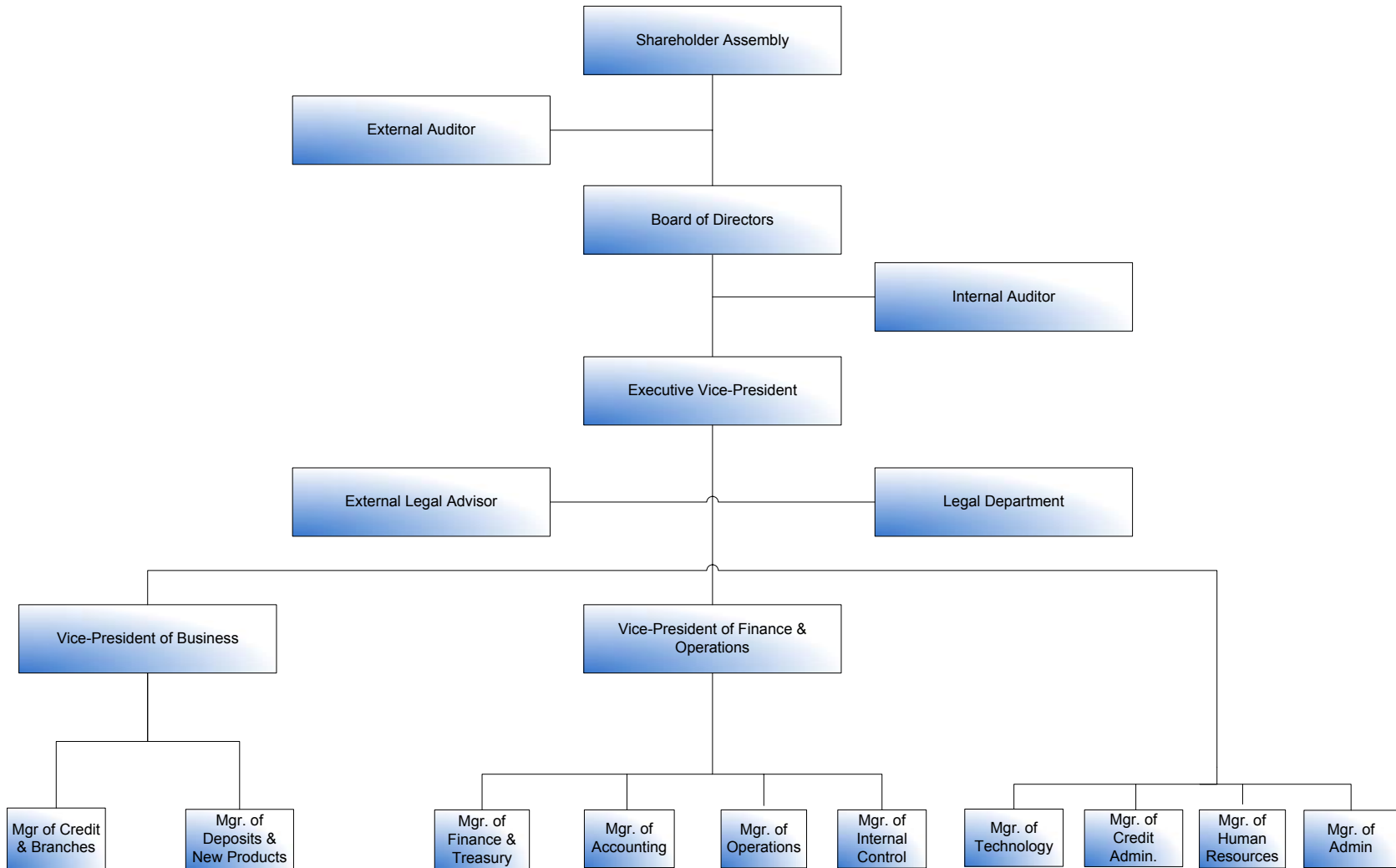
Source: [www.adopem.org.do](http://www.adopem.org.do)

**ADOPEM Bank - Board of Directors**

Mercedes de Canalda	President	Lawyer. Founder & President of ADOPEM NGO. Chair of the Board of Women's World Banking (WWB). Vice President of the NGO Alliance.
Dinorah Polanco Flores	Vice President	Specialist in Social Work. Founder of ADOPEM NGO. University professor. Broad experience in human resources and in pension and retirement systems. Member of the Portfolio at Risk Committee. Member of the working group for the First Lady.
Flavia N. Gonzalez Guzman	Secretary	Lawyer. Founder of ADOPEM NGO. Experience in commercial banking, real estate law and civil law. Mmember fo the Legal Committee. Member of the Credit Committee. Member of the Market & Liquidity Risk Committee.
Engracia A. Mejia Diaz	Treasurer	Lawyer. Founder of ADOPEM NGO. Experience in banking law and commercial law. Mmember of the Legal Committee. Member of the Credit Committee.
Engracia Franjul de Abate	Director	Financial expert. Broad experience in commercial banking, en development banks and in financial groups. Secretary of the Board of Directors of APEC. Former president of Board of Directors of Fundapece. Former president and current Vice Treasurer of the Board of Directors of the Dominican-American Cultural Institute. Coordinator of the Auditing Committee and of the Market and Liquidity Risk Committee.
Miguel Fernandez	Director	Businessman. President of La Vega Motors. Former President and shareholder of the Rice Farmers Cooperative. President of La Vega Cement. Member of the American Chamber of Commerce. Former President of the Chamber of Commerce and Production of La Vega. Former President of Fundeser. Former President of La Vega Country Club, Inc.
Jaime A. Tio Fernandez	Director	Accounting Specialist. Broad experience in the hotel industry. Executive Vice President of Hotel Melia Santo Domingo. Representative of Board of Directors of the Life & Hope Foundation.
Juan R. de la Rosa Santana	Commissioner	Commissioner. Certified Public Accountant. Member of the Ethics & Professional Qualification Committee of the Institute of Certified Public Accountants of the Dominican Republic. Has been a member and director, since its founding, of the Institute of Internal Auditors of the Dominican Republic. Member of EDP Auditors Association in Carol Stream, Illinois in the U.S.
Hipocrates Gil	Substitute Commissioner	Subsitute Commissioner. Independent Certified Public Accountant and municipal employee.

Source: Banco ADOPEM Memoria 2006

# ADOPEM Bank Organizational Chart



December 2006

Source: ADOPEM Memoria 2006

### **Exhibit 3 – ADOPEM Bank’s Financial & Social Performance**

#### ADOPEM Bank

<b>Financial Profile (US\$)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Loan Portfolio	11,188,690	19,519,172	26,012,518
Savings	4,430,035	9,797,669	11,925,463
Avg. Portfolio Yield	44.5%	46.5%	47%
Operating Cost Ratio	22%	25.70%	25.70%
Avg. Cost of Funds	8.20%	11.35%	9.61%
Net Income	917,669	1,298,238	2,170,459
Financial Self Sufficiency	127%	118%	130%
ROA	11%	7%	7.7%
ROE	29.50%	27.20%	34.10%
Leverage Ratio	2.20%	3.30%	3.50%
PAR≥ 30 days	1.10%	3.60%	3.10%
Write-off Ratio	0.07%	0.49%	0.78%
No. of Loans/Loan Officer	320	385	387
<b>Client Profile as of Dec 07</b>			
No. of borrowers	61,897		
No. of savers	51,690		
Avg. Loan Size	US\$420		
Avg. Loan Size/GDP p.c.	11%		
% of women clients	80%		

*Source: Women’s World Banking, Microfinance and the Capital Markets: Evaluating Strategic Opportunities. Profiles of WWB Network Member Institutions. February 2008.*

## ADOPEM Bank & NGO

<b>FINANCIAL INDICATORS</b>	<b>31/12/01</b>	<b>31/12/02</b>	<b>31/12/04</b>	<b>31/12/05</b>	<b>31/12/06</b>	<b>31/12/07</b>
<i>in US\$</i>						
<b>Balance Sheet</b>						
Gross Loan Portfolio	10,943,649	12,872,062	9,637,720	15,346,832	21,393,677	28,501,083
Total Assets	18,281,649	22,402,447	17,661,902	19,874,143	30,148,020	41,149,940
Savings	0	0	0	3,725,022	7,426,593	10,014,336
Total Equity	7,511,726	9,173,197	8,945,318	10,701,570	13,131,563	16,013,546
<b>Financing Structure</b>						
Capital / Asset Ratio	41.09%	40.95%	50.65%	53.85%	43.56%	38.92%
Debt / Equity Ratio	143.37%	144.22%	97.44%	85.71%	129.58%	156.97%
Deposits to Loans	0.00%	0.00%	0.00%	24.27%	34.71%	35.14%
Deposits to Total Assets	0.00%	0.00%	0.00%	18.74%	24.63%	24.34%
Gross Loan Portfolio / Total Assets	59.86%	57.46%	54.57%	77.22%	70.96%	69.26%
<b>Overall Financial Performance</b>						
Return on Assets (%)	13.84%	14.53%	7.29%	12.47%	9.62%	7.37%
Return on Equity (%)	33.31%	35.42%	15.92%	23.82%	20.19%	18.04%
Operational Self-Sufficiency (%)	168.30%	191.85%	127.20%	164.77%	140.24%	133.72%
<b>Revenues</b>						
Financial Revenue Ratio (%)	34.10%	30.34%	34.08%	35.76%	41.25%	37.56%
Profit Margin (%)	40.58%	47.88%	21.38%	39.31%	28.69%	25.22%
<b>Expenses</b>						
Total Expense Ratio (%)	20.26%	15.82%	26.79%	21.70%	29.41%	28.09%
Financial Expense Ratio (%)	4.69%	2.86%	12.86%	5.85%	7.78%	6.50%
Loan Loss Provision Expense Ratio (%)	0.87%	1.78%	0.46%	n/a	2.16%	1.30%
Operating Expense Ratio (%)	14.70%	11.17%	13.48%	15.90%	19.48%	20.29%
<b>Efficiency</b>						
Operating Expense / Loan Portfolio (%)	23.23%	19.09%	24.98%	23.89%	26.52%	28.99%
Cost per Borrower	91.5	70.1	55.2	62.1	84.2	114.9
<b>Productivity</b>						
Borrowers per Staff member	186	215	288	244	215	192
Savers per Staff member	0	0	0	38	84	149
<b>Risk</b>						
Portfolio at Risk > 30 days Ratio (%)	2.88%	1.24%	3.14%	2.69%	4.17%	3.78%
Loan Loss Reserve Ratio (%)	3.04%	2.82%	3.51%	2.73%	4.04%	3.65%
Risk Coverage Ratio (%)	105.43%	227.71%	111.76%	101.30%	96.81%	96.80%
Write Off Ratio (%)	2.08%	1.12%	1.11%	0.57%	0.74%	1.23%
<b>OUTREACH INDICATORS</b>	<b>31/12/01</b>	<b>31/12/02</b>	<b>31/12/04</b>	<b>31/12/05</b>	<b>31/12/06</b>	<b>31/12/07</b>
Number of Personnel	151	171	139	230	277	346
<b>Lending</b>						
Number of Active Borrowers	28,079	36,770	39,999	56,108	59,586	66,286
Average Loan Balance per Borrower	390	350	241	274	359	430
Loans below US\$300 (%)	n/a	7.49%	n/a	n/a	n/a	n/a
Woman Borrowers (%)	88.30%	86.10%	89.90%	80.70%	79.90%	79.60%
Avg Loan Bal. per Borrower/GNI p.c.	17.88%	15.49%	12.55%	11.89%	12.60%	n/a
<b>Savings</b>						
Number of Savers	0	0	0	8,841	23,268	51,063
Avg Savings Bal. per Saver	n/a	n/a	n/a	421	319	238
Avg Savings Bal. per Saver/ GNI p.c.	n/a	n/a	n/a	18.32%	11.20%	n/a
<i>Exchange rate used (DR\$/US\$)</i>	15.586	19.298	28.967	34.25	33.23	33.204

Notes: Data from 2003 not reported. Data reported are consolidated for ADOPEM Bank and ADOPEM NGO and therefore all data are not strictly comparable with other sources.

Source: The Mix Market June 2008



## Exhibit 4 – ADOPEM Banks’ Financial Statements 2001-2006

<b>ADOPEM Bank Income Statement</b>						
<i>in '000 US\$</i>	<b>Dec-01</b>	<b>Dec-02</b>	<b>Dec-03</b>	<b>Dec-04</b>	<b>Dec-05</b>	<b>Dec-06</b>
Interest Revenue	55	16	65	732	3,066	7,405
Interest Paid	(102)	(51)	42	(111)	(558)	(1,788)
Net Interest Income	(48)	(36)	23	621	2,508	5,617
Commision Income	-	(1)	(1)	(1)	(51)	50
Other Net Operating Income	2	1	8	78	341	828
Personnel Expenses	(25)	(20)	(19)	(189)	(1,014)	(2,310)
Other Operating Expenses	(25)	(39)	(30)	(170)	(579)	(1,704)
Provisions for Loans	(170)	(19)	(62)	(0)	(68)	(566)
Other Provisions	-	-	(0)	(29)	(59)	87
Operating Income	(266)	(114)	(81)	309	1,077	1,727
Other Non-operating Income (Expenses)	(5)	97	50	9	160	121
Extraordinary Income (expenses)	3	-	0	6	2	-
Earnings before taxes	(268)	(17)	(31)	325	1,240	1,848
Taxes	-	-	(2)	(11)	(305)	(550)
Minority Interest	n/a	n/a	n/a	n/a	n/a	n/a
<b>Net Income</b>	<b>268</b>	<b>(17)</b>	<b>(33)</b>	<b>314</b>	<b>935</b>	<b>1,298</b>
Accumulated Inflation	4.4%	10.5%	42.7%	28.7%	7.4%	5.0%
Exchange Rate (RD\$/US\$)	16.69	17.44	29.05	30.37	34.70	33.51

*Note: Exchange Rate used for convenience translation (RD\$/US\$): 33.51*

*Source: FitchRatings October 2007 Banco de Ahorro y Credito ADOPEM, S.A. (BANCO ADOPEM)*

<b>ADOPEM Bank Balance Sheet</b>						
<i>in '000 US\$</i>	<b>Dec-01</b>	<b>Dec-02*</b>	<b>Dec-03</b>	<b>Dec-04</b>	<b>Dec-05</b>	<b>Dec-06*</b>
<b>A. Loans</b>						
1. Outstanding	157	-	337	2,950	11,225	19,126
2. Restructured		-	-	-	-	-
3. Delinquent	1	132	-	5	176	394
4. (Loan Portfolio Reserves)	(116)	(64)		(0)	(125)	(641)
<b>Total A</b>	<b>43</b>	<b>69</b>	<b>337</b>	<b>2,955</b>	<b>1,128</b>	<b>18,879</b>
<b>B. Other Earning Assets</b>						
1. Investments in Government Securities			-	-	-	-
2. Bank Holdings	0	0	21	87	188	2,294
3. Other Investments in Securities	-	-	-	-	-	-
4. Investments in Subsidiaries & Related Investments	-	-	-	-	-	-
5. (Investment Reserves)	-	-	-	-	-	(18)
<b>Total B</b>	<b>0</b>	<b>0</b>	<b>21</b>	<b>87</b>	<b>188</b>	<b>2,276</b>
<b>C. Total Profitable Assets (A+B)</b>	<b>43</b>	<b>69</b>	<b>358</b>	<b>3,042</b>	<b>11,464</b>	<b>21,155</b>
<b>D. Fixed Assets</b>	<b>45</b>	<b>42</b>	<b>38</b>	<b>185</b>	<b>294</b>	<b>831</b>
<b>E. Non-earnings Assets</b>	<b>291</b>	<b>63</b>	<b>298</b>	<b>350</b>	<b>1,241</b>	<b>1,665</b>
1. Cash	2	1	2	12	73	287
2. Legal Reserve	11	0	64	135	677	1,200
3. Goods Received in-Kind	181	56	56	28	-	-
4. Other	96	5	176	174	488	177
<b>F. Total Assets</b>	<b>378</b>	<b>174</b>	<b>694</b>	<b>3,576</b>	<b>12,999</b>	<b>23,651</b>
<b>G. Deposits and Other Short-term Funds</b>						
1. Current Account	-	-	-	-	-	-
2. Savings	28	21	17	65	294	710
3. Term	506	392	118	610	3,177	8,976
4. Bank Deposits	26	13	-	-	1,194	2,089
5. Other	-	-	-	-	-	-
<b>Total G</b>	<b>560</b>	<b>427</b>	<b>135</b>	<b>675</b>	<b>4,664</b>	<b>11,775</b>
<b>H. Other Funds</b>	<b>15</b>	<b>-</b>	<b>292</b>	<b>212</b>	<b>3,451</b>	<b>4,801</b>
1. Subordinated/Hybrid Debt	-	-	-	-	-	895
2. Securities Issued	-	-	-	-	-	-
3. Other Long-term Funds	15	-	292	212	3,451	3,906
<b>I. Other (that don't accrue interest)</b>	<b>220</b>	<b>67</b>	<b>50</b>	<b>423</b>	<b>804</b>	<b>1,622</b>
<b>J. Equity</b>						
1. Social Capital	361	361	625	2,255	3,132	3,972
2. Reserves	14	14	14	30	76	141
3. Period Income	268	(17)	(33)	298	888	1,233
4. Non-distributed Income	(524)	(677)	(387)	(420)	(122)	2
5. Non-realized Gain or Loss on Investments	-	-	-	-	-	-
6. Revaluation Surplus	-	-	-	105	105	105
<b>Total J</b>	<b>(417)</b>	<b>(319)</b>	<b>218</b>	<b>2,267</b>	<b>4,079</b>	<b>5,453</b>
<b>K. Total Liabilities &amp; Equity</b>	<b>378</b>	<b>174</b>	<b>694</b>	<b>3,576</b>	<b>12,999</b>	<b>23,651</b>
Accumulated Inflation	4.4%	10.5%	42.7%	28.7%	7.4%	5.0%
Exchange Rate (RD\$/US\$)	1669.0%	17.44	29.05	30.37	34.70	33.51

\* Introduction of new accounting manual. Figures are not strictly comparable with prior periods.

Note: Exchange Rate used for convenience translation (RD\$/US):33.51

Source: FitchRatings October 2007 Banco de Ahorro y Credito ADOPEM, S.A. (BANCO ADOPEM)

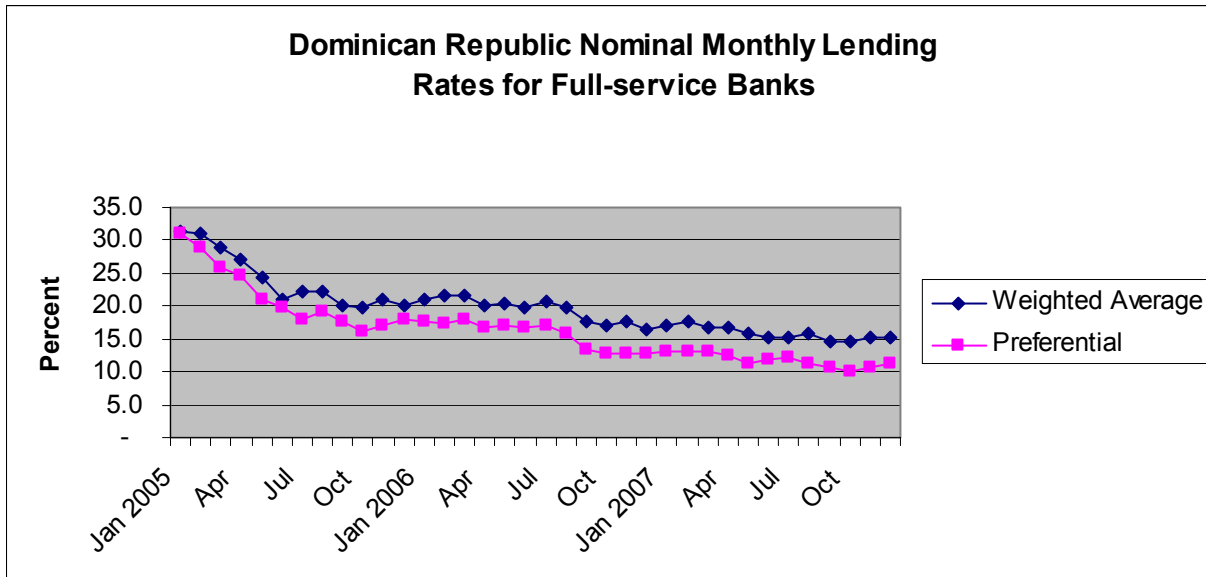
**Exhibit 5 –Interest Rates**

ADOPEM Bank’s Current Interest Rates

<b>Lending</b>		
	Monthly	Annual
<b>Min</b>	3%	36%
<b>Max</b>	4%	48%
<b>Borrowing</b>		
	Annual	
	Savings	CD
<b>Min</b>	5%	6%
<b>Max</b>	6%	9%

Source: Banco ADOPEM December 2007

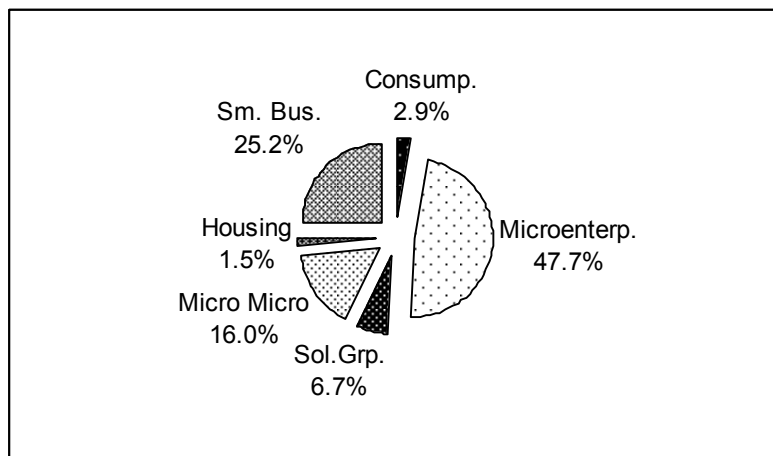
Dominican Republic Monthly Interest Rates 2005-2007



Source: Banco Central de la República Dominicana

## Exhibit 6 – ADOPEM Bank’s Loan Portfolio Composition & Product Descriptions 2006

### Total Loan Portfolio Composition by Amount:



Note: Guarantees (not shown) represent 0.1% of the Total Loan Portfolio

#### I. Group Loans:

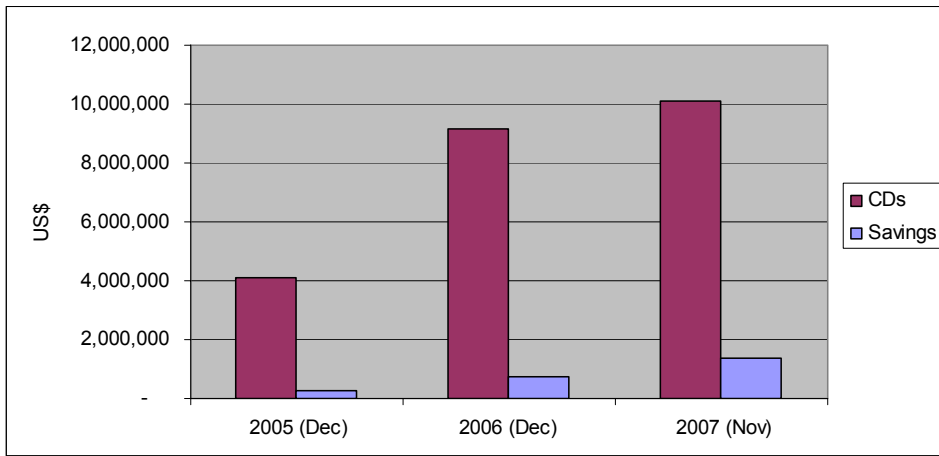
- a. **Solidarity Group** – This loan is designed for the poorest clients. A group of 2-5 members forms to obtain loans for up to RD\$50,000 (US\$1500) to help develop a productive activity and improve the quality of life of clients and their families. The loan is disbursed individually but with a group guarantee. The loans are interrelated in a way that all the members have to repay their loans before any one of them can take out a new one, often for a larger amount. The borrower’s expectation that loan repayment will lead to a follow-on loan and social pressure to repay are two important components of this methodology. Upon developing a productive activity, clients move up to micro-micro, microenterprise and small enterprise loans.
- b. **Micro Micro** - This loan is directed to clients who also form groups of 2-5 members for up to RD\$50,000 (US\$1,505) whose businesses demonstrate a certain degree of growth. They are also disbursed individually but with a group guarantee.

#### II. Individual Loans:

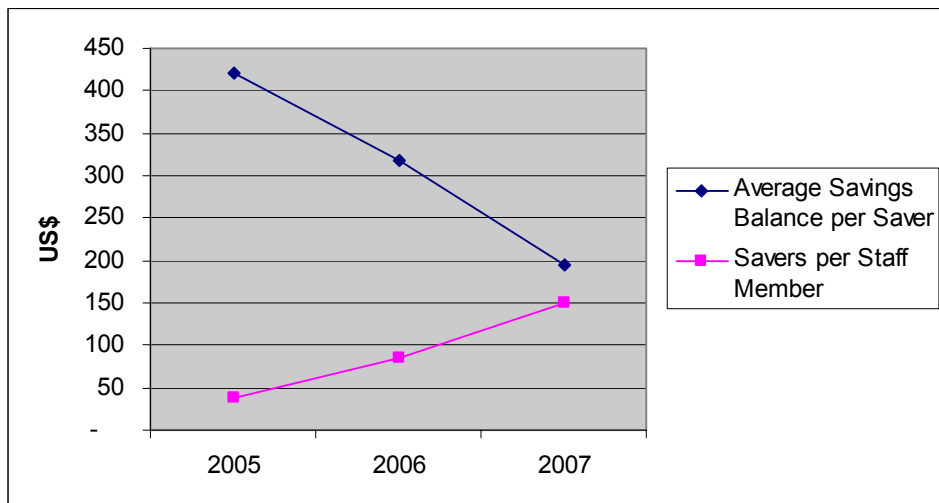
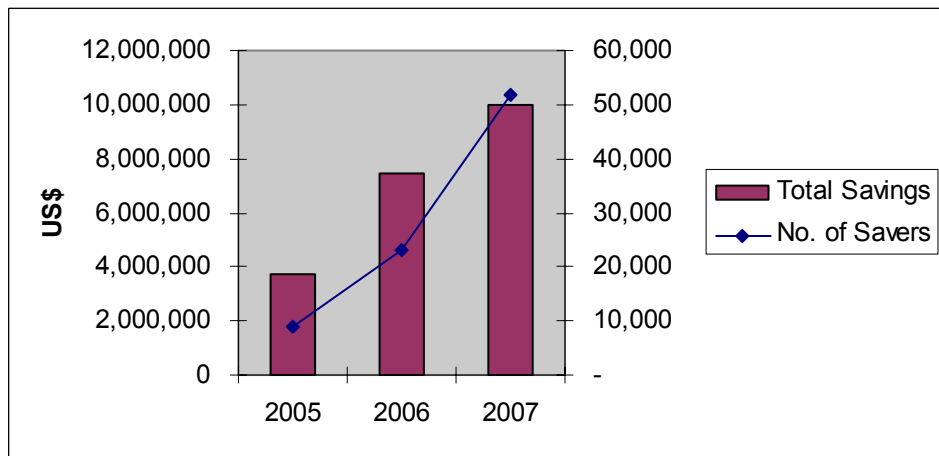
- a. **Microenterprise** – This is a commercial loan for microentrepreneurs to strengthen the development of their business for up to RD\$50,000 (US\$1,505).
- b. **Small Business** – This is a commercial loan for entrepreneurs who have grown with the bank and who need more than \$50,000 (US\$1,505) up to RD\$500,000 (US\$15,058).
- c. **Medium and Large Enterprise** – This is a commercial loan for short or medium term for larger businesses with organized accounting. They can be granted as term loans, installment loans, or through renewable lines of credit for amounts greater than RD\$500,000 (US\$15,058).
- d. **Housing Loans** – These loans are to acquire, repair, expand or build housing. They are granted principally to clients whose source of repayment is the administration of a micro, small or medium-sized enterprise, and are paid in equal and successive installments.
- e. **Consumer Loans** – The loans are to acquire consumer goods and pay for services. Like housing loans, they are also paid in equal and successive installments.

Source: Banco ADOPEM Memoria 2006

**Exhibit 7 – ADOPEM Bank’s Total Savings Growth 2005-2007**



Exchange rate: 2005: 34.25 DR\$/US\$ 2006: 33.23 DR\$/US\$ 2007: 33.47 DR\$/US\$  
 Source: Cecilia Ramón, Manager of Deposits, Banco ADOPEM, December 2007



Exchange Rate: Exchange rate: 2005: 34.25 DR\$/US\$ 2006: 33.23 DR\$/US\$ 2007: 33.204 DR\$/US\$  
 Source: Data taken from the Mix Market, June 2008

## **Exhibit 8 - Market Research**

In 2003, ADOPEM carried out two market studies in collaboration with consultants from Women's World Banking to determine the supply and demand of savings products in the Dominican Republic. The objective was to use the results to design and market ADOPEM's new savings products.

### **I. Supply of products in the market**

<b>Growth of Savings in the Dominican Republic 1995-2002</b>									
<b>(in millions of RD\$)</b>									
	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>Average</b>
<b>Deposits</b>	50,000	56,000	72,000	85,000	104,000	128,000	146,000	175,000	
<b>Growth</b>		12.0%	28.6%	18.1%	22.4%	23.1%	14.1%	19.9%	19.7%

- Majority of these savings (55% in 2001 and 51% in 2002) were invested in fixed-term CDs.
- 12 commercial banks were the depositories of 77% of these certificates, with the other 138 financial institutions receiving the remaining 23%.
- The increase in the volume of remittances that were coming into the country constituted an important factor in the general growth of savings in the country.

The consultants analyzed and compared the existing products in 15 financial institutions divided into four groups: Commercial Banks, Savings and Credit Associations, Savings and Loan Banks, and Cooperatives with the following results and conclusions:

#### Results:

- Majority of the institutions that offered savings products were oriented toward the global market of the Dominican population, with the objective to capture the largest amounts possible, resulting in an oversupply of entities and products that overlapped each other.
- To differentiate their products, the institutions branded their products, used promotion with attractive names and lotteries or targeted specific market segments.
- The SAN was increasingly popular (four institutions offered it and one intended to).
- Of the 15 institutions, eight were current or potential competitors of ADOPEM.
- The market for savings in the Dominican Republic was between the expansion and saturation phase:

#### Conclusions:

- Importance of identifying the existing distinct market segments, and that each one of these needed to be treated in a distinct form since they had different demands and the competition offered them various products.
- Need to highlight more than one competitive element. If ADOPEM only demonstrated strength in one aspect (e.g. interest rates), it would be difficult to compete.
- The existing products were very similar, which required ADOPEM to design new products oriented toward the needs of each existing market segment if it wanted to build a competitive advantage.

### **II. Demand of products in the market**

Objective: to determine the needs and habits of small and medium-sized enterprises with respect to savings.

Sample: 12 study groups composed of a sample 90 resident participants in Santo Domingo based on income level and gender.

	Segment D	Segment C
<b>Monthly Net Income</b>	<RD\$10,000 (<US\$333)	RD\$10,001 - 50,000 (US\$ 333-1,666)
<b>Business</b>	microenterprise or cash-generating activities	small and medium-sized enterprises
<b>Type of Credit</b>	Solidarity Group loans from ADOPEM*	individual
<b>Avg amount of credit</b>	RD\$6,766 (US\$ 283)	RD\$36,637 (US\$1,221)
<b>% of ADOPEM clients</b>	74%	26%
<b>Avg. Savings</b>	RD\$20-30 daily (<US\$1)	RD\$3,400 (US\$113)
<b>Main Motivations to Save</b>	Emergencies	Education, buying land & housing construction, getting a loan
	Segment B	Segment A
<b>Net Income</b>	>RD\$50,000 (US\$1,666)	high net worth
<b>Business</b>	owners of small businesses	no data
<b>Type of Credit</b>	small business loan	no data
<b>Avg amount of credit</b>	RD\$181,168 (US\$ 6,038)	no data
<b>% of ADOPEM clients</b>	1%	N/A
<b>Avg. Savings</b>	10% of income (RD\$13,700 or US\$456)	10%-30% of income
<b>Main Motivations to Save</b>	emergencies, business opportunities	investments, loans, emergencies
<i>Note: Segment D, C &amp; B are composed of ADOPEM's clients. Segment A is composed of both ADOPEM clients and individuals with high purchasing power who are friends and associates of ADOPEM management and the board who could be potential clients of fixed term deposits.</i>		
Exchange rate used: RD\$30/US\$1		

- Two methods were used to estimate the total savings of micro and small-scale enterprises; the first yielded US\$216 million per year and the second US\$113 million per year.
- Conclusions:
  - 80% of ADOPEM's loan clients did not save in commercial banks.
  - Advantages for ADOPEM to enter the savings market:
    - It was already working with the market segment with other microfinance products
    - Staff is known among clients and identifies with the work of the institution
    - An infrastructure is already in place in areas where its target market is.
    - Strong brand image
    - Strong base of loyal clients, especially in Segment D.
    - Committed to being a profitable business without losing its social mission.
    - Contacts with groups of people in Segment A who can be convinced to invest their money in the institution.
  - Disadvantages for ADOPEM to enter the savings market:
    - Reach is restricted due to limited number of branches
    - Limited in the type of services it can offer
    - Limited marketing budget.

### III. Marketing Channels

The monetary authorities did not give permission to use the name “Banco de Ahorro y Credit ADOPEM” to the institution until December 2004. As a result, all the promotional efforts through the media and printed promotional materials remained on stand-by since it was illegal to market using an unauthorized name. Therefore, the initial promotional efforts were essentially personalized visits. This was especially the case for CDs since ADOPEM's management and the board, through its social and professional relationships, undertook the task of motivating friends and acquaintances to invest in CDs with the longest possible maturity. These efforts focused on Segment A. Clients from Segment B received a similar level of personal attention. Visits to members of Segments C&D took place during routine visits of the loan

officers. A final method to acquire savings clients was promoting the products to loan clients when they came to one of the branches to make a loan payment.

*Source: Excerpts taken from “ Introducción de productos de ahorro en una entidad de microfinanzas en proceso de regulación. El caso de ADOPEM en República Dominicana (draft), 2005.”*

**Exhibit 9 – ADOPEM Bank’s Current Savings Products**

<b>Description of ADOPEM's Current Savings Products</b>			
	<b>Passbook Savings (Normal Savings)</b>	<b>SAN (Programmed Savings)</b>	<b>CDs</b>
<b>Amount to Open Account</b>	RD\$250	RD\$250	RD\$2,500
<b>Min. Balance</b>	RD\$25	RD\$25	N/A
<b>Min. Withdrawal Allowed</b>	RD\$25	RD\$25	N/A
<b>Period</b>	N/A	6-12 months	30 days and up
<b>Interest Rate</b>	5%	5.5% - 6%	6%-9%
<b>Interest</b>	Paid weekly on the average deposit amount	Calculated on the amount saved	Calculated daily from the day of opening until the day before cancelation
<b>Penalties</b>	Penalty of up to RD\$25 if the account remains open for less than 30 days	If fail to comply with requirement, the interest paid is that of the passbook savings	Interest rate applied corresponds to the term that the investment maintains

*Source: Cecilia Ramon, Manager of Deposits, Banco ADOPEM, December 2007*



## **Exhibit 10 – ADOPEM Bank’s Consolidated Savings Indicators**

<b>2006</b>						
<i>(Amounts in US\$)</i>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>
No. of Savings Accts Outstanding	9,615	10,491	11,428	12,458	13,288	14,566
Amount of Savings Accts Outstanding	337,522	371,992	417,743	503,008	466,684	487,122
No. of CDs Outstanding	224	242	244	256	243	258
Amt of CDs Outstanding	5,913,777	6,141,236	6,529,451	6,628,604	7,020,606	7,737,043
Total No. of Outstanding Accts (Savings +CD)	9,839	10,733	11,672	12,714	13,531	14,824
Total Amt of Outstanding Accts (Savings+CD)	6,251,299	6,513,228	6,947,193	7,131,612	7,487,290	8,224,165
	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>
No. of Savings Accts Outstanding	15,661	17,159	18,718	20,250	21,933	23,268
Amount of Savings Accts Outstanding	536,193	586,453	595,591	616,901	668,706	710,987
No. of CDs Outstanding	290	285	295	329	302	332
Amt of CDs Outstanding	10,133,167	11,444,875	11,950,374	12,460,857	11,910,459	9,084,624
Total No. of Outstanding Accts (Savings +CD)	15,951	17,444	19,013	20,579	22,235	23,600
Total Amt of Outstanding Accts (Savings+CD)	10,669,360	12,031,328	12,545,965	13,077,758	12,579,165	9,795,611

<b>2007</b>						
<i>(Amounts in US\$)</i>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>
No. of Savings Accounts Outstanding	24,787	26,292	29,060	30,991	33,847	36,415
Amount of Savings Accounts Outstanding	821,910	811,162	901,320	932,699	1,051,946	1,090,615
No. of CDs Outstanding	380	390	400	424	444	453
Amt of CDs Outstanding	9,837,914	9,405,927	9,472,860	9,582,657	10,483,229	12,130,115
Total No. of Outstanding Accts (Savings +CD)	25,167	26,682	29,460	31,415	34,291	36,868
Total Amt of Outstanding Accts (Savings+CD)	10,659,824	10,217,089	10,374,181	10,515,355	11,535,174	13,220,730
	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>
No. of Savings Accounts Outstanding	39,534	41,786	43,779	46,610	49,058	-
Amount of Savings Accounts Outstanding	1,181,183	1,189,934	1,217,915	1,306,284	1,392,101	-
No. of CDs Outstanding	481	480	532	558	590	-
Amt of CDs Outstanding	8,852,480	8,903,306	10,097,061	9,829,639	10,093,839	-
Total No. of Outstanding Accts (Savings +CD)	40,015	42,266	44,311	47,168	49,648	-
Total Amt of Outstanding Accts (Savings+CD)	10,033,663	10,093,240	11,314,976	11,120,984	11,485,941	-

*Note: Convenience Translation Exchange Rate (DR\$/US\$): 33.47*

*Source: Cecilia Ramón, Manager of Deposits, Banco ADOPEM, December 2007*