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International Science and Technology Institute, Inc

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1129 20th Street, N.W. Washington, D.C. 20036  
202-223-2231 • Telex: 271255 ISTI • FAX: 202-223-2231

OFFICE OF PRIVATE AND VOLUNTARY COOPERATION  
AGENCY FOR INTERNATIONAL DEVELOPMENT

PVO INSTITUTIONAL DEVELOPMENT EVALUATION SERIES

FIELD REPORT NO. 10

ASOCIACION PARA EL DESARROLLO

DE MICROEMPRESAS (ADEMI)

AND

ACCION INTERNATIONAL

Prepared by:

Richard Greene, ISTI Consultant  
Rebecca Reichmann

International Science and Technology Institute, Inc.  
1129 20th Street, N.W.  
Washington, D.C. 20036

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## INTRODUCTION

ACCION International is a private, non-profit organization that supports micro-enterprise credit and training programs in the United States, Latin America and the Caribbean. For the past twenty-five years, ACCION's business development programs have created economic opportunities and employment for a sector of the economy that has little access to formal business channels.

These are the people of the "informal" sector, self-employed producers and vendors who are too small for traditional government or banking assistance.

The informal sector is a vast market economy comprised of the activities of small-scale, labor-intensive, and usually family-operated businesses all over the world. Most of this commercial activity takes place outside of the economic mainstream; informal businesses are not taxed, licensed, insured, nor registered in the national income accounts. Yet these businesses are a vital source of jobs, income, goods and services in developing economies. In Peru, for example, the informal sector adds an uncounted \$11 billion to the gross national product. In Lima alone, there are between 300,000 and 500,000 micro-businesses, whose activities account for 95% of Lima's public transportation, 90% of the clothing industry and 60% of housing construction.

ACCION creates credit and business-management training programs for informal micro-entrepreneurs. Each year, ACCION facilitates short-term credit and basic business training for more than 16,000 micro-businesses, indirectly benefiting 100,000 people in the neediest communities of the Americas. Over a million dollars a month are disbursed in loans averaging \$200, with a 98% repayment rate.

ACCION's programs are successful because they are designed to deliver services to informal sector entrepreneurs in forms appropriate to their business needs. Program participants begin by borrowing small, short-term loans. As they develop their capacity to manage the loans and as their businesses grow, participants continue to borrow according to a schedule of scaled loan amounts. In this way, participants choose a level of borrowing appropriate to their business needs. The solidarity group method, in which participants organize themselves into groups and co-sign for each other's loans, makes it possible to reach even the poorest of poor business owners. This approach establishes a network of incentive and mutual support that makes it possible to administer loans to people who would not qualify for credit otherwise.

ACCION's programs are also designed to integrate micro-entrepreneurs into the local economy. Market interest rates are charged to assure that the program assists viable businesses that will contribute to economic development. Most programs require that

participants begin saving on a regular basis, often by opening an account in a local bank. The terms of the loans are designed to prepare micro-entrepreneurs for doing business with commercial institutions in the future when their businesses grow.

Programs of assistance to the informal sector are vital to the economic and social development of developing countries. Informal micro-businesses create jobs and provide vocational training.

They supply needed goods and services and increase national income. A \$300 loan to a micro-entrepreneur increases his or her income from 60 -100%, and a new job is created or strengthened for every \$1,000 in credit extended. And most importantly, by providing income and employment opportunities to those traditionally excluded from formal sector institutions, this type of assistance builds a basis for the development of a more equitable distribution of wealth and a democratic society.

## SUMMARY

This evaluation is part of an AID series of evaluations of successful Private Voluntary Organization (PVO) programs, the primary purpose of which is to identify those features of the organization which may be considered to account for its success and which may, therefore, be usefully replicated in other programs.

The PVO which is the subject of this evaluation is The Association for the Development of Microenterprises Inc. (ADEMI), a Dominican non-profit organization affiliated with ACCION International, a U.S. PVO located in Cambridge, Massachusetts. ADEMI, as other ACCION affiliates elsewhere in Latin America, makes loans to microentrepreneurs, defined by ADEMI as entrepreneurs whose assets are too small to make them eligible for commercial bank loans. This, the lowest stratum of entrepreneurship in developing countries, is the target of all ACCION affiliated programs. ACCION has chosen to address the credit needs of this group on the grounds that it creates the most employment per dollar invested (compared to the larger, more modern enterprises, which use capital intensive means of production), that helping it furthers economic development by broadening the entrepreneurial base, and that the income distribution effect of helping the lowest stratum is conducive to political stability and the growth of democracy.

ADEMI has achieved notable successes in less than four years of existence. As of the end of 1986 it had made 9,108 working capital loans for over \$3 million to 2,772 borrowers, increasing their sales by 37%, profits by 52%, savings by 126% and fixed assets by 19%, creating 2,566 new jobs (an 18% increase for the borrowers), and increasing borrower payrolls by 20%.

The evaluators consider that the following institutional features, of both ACCION and ADEMI, are particularly explanatory of ADEMI's success:

- o a precise, delimited and developmentally valid program focus, as opposed to broader and vaguer objectives (the focus being extension of credit to microenterprises);
- o conscious attention to program viability and self-sufficiency, through income from financially sound interest rates, a precedent among PVOs;
- o a concern for broadening the outreach of successful pilot programs to a national level while providing minimal, streamlined services so as to reach a large clientele at minimal cost;
- o careful selection of personnel stressing motivation

and orientation, a combination of social goals and private sector orientation, along with professional qualifications;

- o long term commitment allowing development of effective and sustainable programs;
- o flexibility and adaptability allowing evolution of programs toward ever-increasing effectiveness and efficiency;
- o a participatory mode of operation at all levels, within ACCION and ADEMI, between the two organizations, and between ADEMI and its clients, which fosters feedback making possible the most effective evolution of programs;
- o decentralization which places decision-making at the level of most information and quickest response;
- o a light touch on the part of the U.S. organization ACCION, giving good personnel in the affiliated organization room to be inventive and responsive to local circumstances and fostering pride and enthusiasm in local organization personnel;
- o functional, on-the-job type training at all levels, rather than a scattergun proliferation of classroom courses;

- o generally good information systems.

The evaluators recommend the following as possible ways of improving the ADEMI and ACCION programs:

A. ADEMI

- o formally take the effect of inflation and anticipated defaults into consideration in setting interest rates;
- o prioritize types of clients according to employment generation potential;
- o monitor certain indicators carefully during expected rapid expansion so as to become aware of problems before they have become serious;
- o make additional efforts to graduate clients to commercial bank funding;
- o foster the development of client groups for mutual education and other purposes;
- o study the effectiveness of the program in reaching women

entrepreneurs and bolster efforts in this area as appropriate.

#### B. ACCION

- o study what kinds of enterprises generate the most employment per dollar invested;
- o study the employment generation impact of capital investment loans as compared with those for working capital only;
- o study utility of client training in generating growth and employment as compared to just credit with minimal training;
- o closely monitor effects of ADEMI's rapid expansion.

It should be noted that the ADEMI program is already an outstanding one. These recommendations are to a considerable extent a matter of fine tuning or insurance against future problems.

## I. Background

### A. Purpose of Evaluation

This evaluation is part of a series undertaken by AID to identify institutional and managerial factors in private and voluntary agency (PVO) programs which appear to account for their success. At the same time the evaluators have been asked to offer ideas formulated in the course of the evaluation as to measures which might improve the performance of the subject PVO.

The primary focus of evaluation is the Asociacion para el Desarrollo de Microempresas, Inc. (the Association for the Development of Microenterprises, Inc., ADEMI) a Dominican PVO affiliated with ACCION International, a U.S. PVO located in Cambridge, Massachusetts. Managerial features of both ACCION and ADEMI that may be considered to have contributed to ADEMI's success are considered.

This evaluation does not include an effort to demonstrate or quantify ADEMI's success since that was done in an InterAmerican Development Bank (IDB) evaluation completed less than a month ago. The pertinent findings of the IDB evaluation are summarized below in section I.E.

The evaluation conforms to AID's Round Two Scope of Work in the PVO Institutional Development Series, and responds to questions raised therein. This is particularly evident in Section II below, "Factors Accounting for Success." The themes of the subsections of that section are drawn largely from the Scope with a few additions covering features not touched upon in the Scope. Questions from the scope not dealt with in section II are not pertinent to the ACCION/ADEMI program.

#### B. Methodology

The field work for this evaluation was conducted over a two week period largely by informal interview and review of documents. Given the short period of time available for the evaluation, data gathering was impressionistic rather than scientific. Samples were neither random nor representative. However, opinions expressed about ADEMI at all levels were uniform to such a degree as to suggest considerable reliability.

Interviews were conducted with 17 ADEMI clients, 4 Advisors, two Regional Coordinators, the officer in charge of solidarity groups, the Executive Director, the Managers of Operations and Program Planning and Evaluation, the Financial Manager, the President of the Board of Directors, the authors of the recent BID evaluation, the Director of one of the organizations hosting

ADEMI field offices, FUNDESIRE (the Foundation for the Integrated Development of the Eastern Region), and officials of two private banks. (A list of persons interviewed is appended as Annex A.) The evaluators were also present at a meeting of the Executive Committee of the Board of Directors and the monthly meeting of the advisors for Santo Domingo, and visited field offices in San Cristobal and San Pedro de Macoris and client businesses in San Pedro and Santo Domingo. Statistical Data were drawn from the ADEMI Annual Report for 1986 and the recent InterAmerican Development Bank evaluation. The IDB evaluation was also relied upon for data relating to ADEMI successes, summarized below in section I.E., which were not reevaluated for the purposes of this report.

### C. Description of ADEMI and its Program

ADEMI is an incorporated, non-profit Dominican organization dedicated to providing credit to microentrepreneurs in the Dominican Republic. Microentrepreneurs are defined empirically for the purposes of the program as those too small to obtain credit from commercial banks. (They also typically perform the same work as workers in their shops, rather than simply serving as owner-managers.) Their only source of credit, aside from family and friends, is money lenders who charge interest rates commonly on the order of 20% a month. At these rates the borrowers are unable to accumulate any surplus for investment or growth or

for improving their standard of living, but are able only to maintain their businesses at very low levels and meet their most basic needs. ADEMI, thus, by providing them with credit (currently only short-term working capital credit, but soon to include longer term capital investment credit) at approximately commercial bank rates, makes it possible for them to rapidly increase the size of their business (see sec. I.E. below) and payroll, and bring about impressive changes in their standard of living.

ADEMI and ACCION have chosen microenterprise as their program focus because of the higher level of employment created per dollar invested by microentrepreneurs (as compared to larger, more modern businesses with their highly capital intensive forms of production), because of a belief in the potential importance to economic development and the growth of democracy of broadening the entrepreneurial base, and because of a conviction that the highly skewed pattern of income distribution typical in developing countries that have concentrated almost exclusively on the modern sector leads to political instability and undemocratic government.

ACCION was the midwife for ADEMI. ACCION helped ADEMI come into existence by providing the model for its program, a model developed earlier in other countries with ACCION support, and has provided ADEMI with technical assistance in its development.

ADEMI is governed by a Board of Directors consisting of sixteen business, banking, and foundation leaders, who are nominated and elected by the Board. The Board meets once per semester, while the Executive Committee, consisting of six key Board members meets at least once per month. The Executive Director is selected by the President, with approval from the Executive Committee. There are three Managers under the Executive Director, for Operations, Program Planning and Evaluation, and Finance. The Manager for Operations supervises three regional coordinators, for Santo Domingo, the eastern zone, and the southern zone, and each coordinator supervises, at present, 7 or 8 Advisors (who have direct contact with the borrowers). (ADEMI's table of organization is appended as Annex B.) Advisors outside of Santo Domingo are based in separate towns throughout their zones and assisted by Secretary-Assistants. Each advisor works with from 70 to over 100 clients, visiting each every week or two, promoting the program among other microentrepreneurs, investigating new applicants for loans, preparing papers for new and follow-up loans, disbursing loan checks, collecting repayments, providing technical assistance to borrowers, most commonly in book keeping and operations management ("efficiency engineering"), and dealing with delinquent borrowers.

ADEMI local offices outside the capital are sponsored and hosted by local and regional organizations, chambers of commerce, churches, regional development organizations, trade associations, etc.

#### D. History

##### 1. ACCION International in the Dominican Republic<sup>1</sup>

A number of factors may account for ADEMI's innovative character. ACCION had been developing microenterprise methodologies since its first experience with the UNO program in Recife, Brazil in 1973. An ACCION technical advisor had worked with micro--enterprise projects in Colombia as well when the Dominican Development Foundation (DDF) expressed interest in developing a similar project. The DDF is a private voluntary organization founded in 1965 that has worked extensively in rural areas in the Dominican Republic.

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Ashe, Jeffrey. Assisting the Survival Economy: The micro--enterprise and solidarity group project of the Dominican Development Foundation (Revision and Update: 1984) ACCION International.

Ashe, Jeffrey. The PISCES II Experience: Local Efforts in Micro-Enterprise Development, Agency for International Development, 1985.

Farbman, Michael, ed. The PISCES Studies: Assisting the Smallest Economic Activities of the Urban Poor, Agency for International Development, 1981.

Gross, Stephen H. Estudio de Factibilidad: Programa de Micro-Empresas, Fundacion Dominicana de Desarrollo, 1980.

Reichmann, Rebecca. The Dominican Association of Tricicleros 'San Jose Obrero': A Case Study of Local Empowerment, ACCION International, 1984.

With USAID support, ACCION began to provide technical assistance to the DDF by conducting a feasibility study authored by Stephen Gross. Published in October, 1980, the study established the parameters of the employment problem in the urban area and surveyed the Dominican informal sector, defining its characteristics, its need for working capital, and its capacity to absorb small but increasing amounts of capital and labor.

This study served as the basis for a microenterprise program, PRODEME, administered by the DDF with technical assistance provided by ACCION. PRODEME (Program for the Development of Microenterprises) became operational in May 1981 and the first loans were disbursed in July of that year. ACCION provided to the project a full-time resident advisor, Stephen Gross, who transferred specific skills and information within a pre-defined period, as the typical procedure in any ACCION-assisted project. Working closely with the Foundation staff, he helped design the two components of the project and develop the funding proposals, in addition to designing and carrying out the initial feasibility study. Mr. Gross played a major role in training PRODEME personnel and providing feedback to the DDF through monthly reports and frequent meetings. He also helped design the manuals and courses the micro-enterprise component is currently using. In the initial months he worked side by side with the PRODEME staff, but his role in the final months was much less direct, and in August 1983 he left the DDF.

A 1982 evaluation of that program, carried out by ACCION, identified two major, closely intertwined problems: a worrisome problem of low payback, and the slowness of the institution's procedures for disbursing loans, resulting in increased administrative costs and unnecessary delays for the project's clients. On the programmatic side, the policies and mechanisms for granting second loans needed to be specified and a system by which smaller, shorter-term working capital loans could be granted needed to be created. The latter feature was more in keeping with the business cycle of the microentrepreneurs assisted, in which small amounts of capital are invested on a daily or weekly basis for materials and/or inventory.

The program was modified somewhat to counter these principle problems and the payback rate improved from 56% in 1982 to 71% in 1983. However, the problems with bureaucratic delays in disbursing loans continued. Important lessons were learned through this experience. In particular, the need was recognized to create a private sector "bottom line" environment, rather than that of a charitable or social service organization. Efficiency would become a priority in designing information and documentation systems. The clients' needs would be the basis for determining the loan disbursement mechanism (the DDF had been using an unwieldy purchase-order system), and the staff would be strict about repayment. The most revolutionary lesson that was drawn from

the DDF experience was that clients could actually "select" themselves for a loan by proving themselves to be responsible borrowers, starting with very small loans that increased with a good repayment record. Granting successive loans quickly would motivate clients to pay existing loans on time. It was hypothesized that these two project characteristics could cut significantly the time required to collect on late and defaulted loans, and therefore reduce the cost of administering the project.

The DDF experience also taught ACCION that promotion in this sector could and should be carried out primarily by word of mouth, and that through the solidarity group mechanism, much of the staff time taken in supervision of clients could be carried out by the groups themselves, again significantly cutting program costs. The "self-selection" method of assuring loan repayment also would contribute to project efficiency by cutting down on supervision time.

Thus, through the DDF experience, ACCION developed a series of project features that would support project agility and cost effectiveness, leading to the important goal of financial self sufficiency. By 1983, these program features were still hypotheses to be proven on the testing ground of the urban informal sector.

Concurrent to the DDF experience, ACCION International in the U.S. was deeply involved in a six year study of state-of-the-art

of microenterprise assistance programs around the world. The AID supported PISCES Project was designed to explore the feasibility of assistance to microenterprises and to derive elements key to successful project implementation. Beginning in 1978, the PISCES (Program for Investment in the Small Capital Enterprise Sector) project was funded by what is now the Employment and Enterprise Development Division of the Office of Rural and Institutional Development of AID. The prime contractor for the PISCES Project was ACCION, which was in charge of the technical direction of the project, the Latin American field work, and the systematization of the study results. In Phase I of the PISCES Project, twenty projects in sixteen countries were studied and reported on, and their key elements were identified so as to promote a systematic understanding of why some projects succeed and others fail.

Building on this research experience, in Phase II of the PISCES Project, demonstration projects were designed, implemented and evaluated in cooperation with USAID missions in four countries. One of the conferences to present the lessons learned was held in the Dominican Republic, providing ADEMI staff with an opportunity to actively participate.

ACCION has had the unique opportunity to be intimately involved with both on-site experience (through the resident advisor experimenting with methodologies), and with reflection and research

on those methodologies with teams of PISCES researchers and data analysts. These opportunities have allowed ACCION to use ADEMI almost as a laboratory, to test the best of the methodologies and lessons learned from Africa, Asia and Latin America. ACCION has continued to draw lessons from ADEMI, to apply its experiences to other programs in the ACCION network, and to modify project design as it learns through experience.

## 2. ADEMI's History<sup>2</sup>

In late 1982, a group of Dominican public and private sector leaders requested assistance from ACCION International to create a credit program for the smallest businesses of the poor in Santo Domingo. Local private sector leaders discussed innovative project possibilities with the ACCION resident advisor, and decided that they wanted to create an alternative to the traditional subsidized development programs which were viewed as paternalistic, of more benefit to bureaucrats than to the working poor.

ADEMI was created in 1983 with a donation of RD\$ 88,300 (approximately US\$ 60,000) from local private donors. Two overriding objectives were incorporated into the project design: (1) to reach a large number of businesses throughout Santo Domingo

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<sup>2</sup>Reichmann, Rebecca. Women's Participation in ADEMI: The Association for the Development of Microenterprises, Inc., ACCION International, 1984.

Bowman, Margaret. An Organizational Analysis of the Expansion of ADEMI's Credit Program, John F. Kennedy School of Government, Harvard University, 1987 (available through ACCION International).

and (2) to become financially self-sufficient, using direct revenue from services to cover all costs.

ADEMI's real innovation was its simple and rapid mechanism for greatly expanding the number of businesses assisted with short-term working capital loans in the poorest sector of the Dominican economy. This commitment to scaling up grew not only from ACCION's experiences with the DDF microenterprise program locally, and with the PISCES lessons internationally, but also from the recognition that traditional lending practices would have to be modified in order to make a real impact upon the sector. ACCION wanted to break through the "pilot" or "model" project syndrome and actually impact the population it assisted.

Aside from ADEMI's commitment to scaling up, perhaps its next most innovative feature was that it combined characteristics of informal lending practices with elements of a formal credit institution. The informal elements were incorporated after studying how to more adequately meet the microentrepreneurs' needs, rather than imposing ways of doing things that were costly and/or irrelevant to them. Frequent repayment, elimination of the collateral requirement, reduction of paperwork and of transaction time and costs, and advisors' constant contact with clients in their homes as well as their businessplaces all contributed to clients' feeling that ADEMI is accessible. ADEMI's accessibility has consolidated clients' identification with

the program's goals and its people, and high repayment rates reflect this.

On the other hand, ADEMI shares elements of formal credit institutions, like commercial interest rates, legal recognition, and loan payments at the bank. These components are intended to help informal sector business owners -- most of whom have never used a bank at all -- to integrate into the formal economy. One of the women borrowers reflected:

ADEMI is a stimulus. You feel like an important part of society. In this country only 'important' people can get credit from a bank. This way, a person feels like something more. You don't feel little, the way you would in front of a banker.

In accord with an initial agreement with the Banco Popular, the bank maintains ADEMI's revolving loan fund, receives loan payments, and manages the clients' savings accounts. The bank's location near ADEMI's office and its thirteen other bank branches throughout the city have been a great aid to ADEMI's efficiency in disbursing and collecting loans.

ADEMI constantly assesses its ability to reach large numbers of borrowers efficiently. ADEMI has learned to calibrate loan size more closely to businesses' needs, rather than indiscriminately increasing loan amounts as was initially done with clients who paid off their loans. In general, slight adjustments in methodology have been made to adapt to the economic situation or to perceived needs to strengthen the portfolio (i.e. curtail lending to new

clients for short periods of time, suspend loans to solidarity groups, etc.) Management changes have occasionally affected the portfolio (i.e. management problems led to increased defaults or late payments and to decreases in new borrowers) over time.

From that experience, the following lessons have been recorded:

- o Project director must work in close coordination with field staff;
- o Clients should have access to the project director, to increase their sense of identification with ADEMI;
- o All staff should be trained in uniform programmatic and policy procedures;
- o A strong system of feedback and communications between all levels of project staff is critical to program functioning;

ACCION's role presently is to provide ADEMI with access to international microenterprise assistance efforts, to serve as a clearinghouse for information, to conduct research and to educate private sector groups both in the U.S. and Latin America about microenterprise development.

ADEMI's Board of Directors has set goals that will allow it to impact the local Dominican economy in a significant way. They project that they will have made a major breakthrough in impacting income and employment levels when they have assisted 25,000 businesses on a national level, and have create 100,000

jobs directly. At this point, they will have reached indirectly 10% of the national population, without accounting for backward and forward linkages.

Looking forward to this sort of breakthrough, ADEMI's President and Board are studying the feasibility of an informal sector banking system -- BANMICRO -- that will accommodate the magnitude of transactions required to achieve the expected impact. BANMICRO would start with commercial bank money, when the ADEMI portfolio reaches one million dollars (projected for December 1987). At that point, the BANMICRO program would start (in early 1988) with about a million dollars. ADEMI's current active loan portfolio would be passed to BANMICRO.

ADEMI would continue to exist, but as an association of micro-entrepreneurs organized to defend the interests of the informal sector and promote social programs and research. ADEMI, as a microenterprise association, would also be able to give technical assistance to other microentrepreneurs. ADEMI's President envisions that the ADEMI of the future will be supported by microentrepreneurs' savings and investments. Essentially, the idea is to eventually separate ADEMI's financial functions from its institutional functions, as the financial component would need the full technology of a banking system. Although it would be non-profit, shareholders of BANMICRO would be private sector investors. Shares

in Banmicro would be tax deductible, and the bank would use a guarantee fund.

The visions for a future ADEMI controlled by microentrepreneurs, and a BANMICRO -- a full service banking institution designed to serve microentrepreneurs -- have emerged from the ADEMI leadership with which ACCION has worked since 1980. These leaders will bring to life an institution that is controlled by private hands -- both the wealthy and the working poor -- that are solving their nation's most pressing problems, poverty and unemployment.

#### E. ADEMI Successes

The following description of ADEMI accomplishments is drawn from a recent evaluation of ADEMI for the InterAmerican Development Bank by two Dominican economists, Arelis de Gomez and Vanessa Saladin. The authors of this report reviewed the IDB evaluation carefully and discussed it with the evaluators and are satisfied as to its soundness. Gomez and Saladin listed the following accomplishments of the program, in its 3-1/2 years of existence:

- o number of borrowers: 4,225 (of which 1,730 borrowed through 277 solidarity groups rather than receiving loans as individual entrepreneurs);
  
- o number of loans: 9,108;

- o amount loaned: over \$3 million;
- o increase in borrower sales: 37%;
- o increase in borrower profits: 52%;
- o increase in borrower savings: 126%;
- o increase in borrower fixed capital: 19%
- o number of new jobs created: 2,566, approximately an 18% increase;
- o increase in payroll: 20%, indicating that pay per employee increased on the average;
- o average cost per job created: approximately \$1,200;

In the light of these figures it is fair to consider this program a striking success, in terms of impact as well as output.

## II. Factors Accounting for Success

### A. Institutional Characteristics

## 1. Philosophy of Development

ACCION and ADEMI share a distinctive development focus with an underlying philosophy which is both implicit in the focus and expressed in various policy and action documents. The focus, as indicated in the description section above, is on the provision of credit to existing microenterprises. The underlying philosophy is that the non-agricultural employment generation needs of developing countries can generally best be met by microenterprises, and that it is of great importance, for reasons of both social justice and political stability, to meet those needs. This philosophy permeates the ACCION/ADEMI program. No one could work in the program without being aware of and accepting the philosophy. Indeed only those who are receptive to and well qualified by training and experience to apply it are hired by ACCION and ADEMI. There is thus no need for special training or monitoring systems to assure application of the philosophy.

Another element of the ACCION/ADEMI program philosophy is emphasis on self-sufficiency through interest rates which cover operating costs, in contrast to the more common PVO practice of heavily subsidizing interest rates. This is a manifestation of ACCION/ADEMI's bottom line way of looking at their programs.

A third basic element of ACCION/ADEMI's program approach is a concern for large scale application of their methodology and for streamlined, low cost delivery systems which make large scale application possible. ACCION continually asks itself and its affiliates how programs can be expanded so as to meet on a national scale the needs to which they are addressed and how costs can be held to a minimum so as to facilitate expansion.

The existence and nature of ACCION/ADEMI's program focus gives the organizations a certain advantage over PVOs with less clear or circumscribed goals. It is easy for members of the organizations to keep their eye on the ball, and there is a quantifiable bottom line against which they can measure performance, as distinguished from rural development organizations, for example, which pursue a goal subject to varying interpretations and less readily susceptible to quantitative definition. This is not to suggest that all PVOs should have similarly limited goals--which could reduce long range effectiveness in certain fields, e.g; rural development again--merely that having such a specialized program offers certain advantages. It can be said, however, that all PVOs should define their goals in as precise and operational a way as possible.

## 2. Participation

ACCION and ADEMI are participatory organizations. By this we mean that those at all levels of the organizations consult extensively with those at lower levels, and with the intended beneficiaries of their programs, that they encourage them to express their opinions, and that they give considerable weight to those opinions in reaching decisions. The participatory nature of ACCION and ADEMI manifests itself at several levels; within and between the organizations, between ADEMI and its field offices and between ADEMI field representatives (Advisors) and their clients. It seems very likely that this participatory mode of operations has made an important contribution to ACCION and ADEMI's success. Feedback has played a vital role in evolving their programs toward ever increasing relevance and effectiveness.

ACCION functions in a collegial rather than a top down fashion. At the interorganizational level ACCION and ADEMI function as sister organizations rather than in a paternalistic relationship. ACCION's experience and expertise are recognized by ADEMI, but ACCION does not tell ADEMI what to do. It merely offers support and suggestions.

ADEMI, in turn, both consults extensively with regional coordinators and advisors, through regularly scheduled as well as ad hoc meetings, resulting from headquarters personnel visits to the field or vice-versa. The scheduled meetings include one at the beginning of the year with all advisors, monthly meetings

with the regional coordinators and, in turn, with the advisors from each zone, and workshops in the middle and at the end of the year, dealing in depth with matters of common concern. The dates of these meetings are set and a list of them is issued at the beginning of the year (Annex C).

Advisors visit their clients at least every two weeks on the average and in many cases every week, for 15 minutes or so if there is no particular reason for the visit, or for as long as it takes if a specific purpose (e.g. technical assistance with accounting or operations management, or discussion of a repayment delay or the possibility of a follow-on loan), is foreseen or arises in the course of the visit. This not only gives ADEMI the benefit of client input into the decision-making process but also alerts the organization promptly to any problems the client is encountering and makes it possible to render assistance. It also helps the repayment collection process both directly and by establishing a bond between the advisor and the client, which increases the importance the client attaches to repayment. In addition it gives the advisor an awareness of problems the client might be encountering which could warrant postponement of repayment. In such cases the advisor also does what he can to help the client overcome the problems leading to delay.

The level of interaction between ADEMI advisors and their clients goes beyond participation as conventionally defined, and indeed beyond what is normal in credit programs, and goes a long way toward explaining the success of ADEMI's program. It comes under the more general heading of close contact with the client, an important element of success in any program, whether actively participatory or not.

### 3. Decentralization

Along with being participatory, ADEMI is decentralized. Considerable authority is delegated to the regional and local levels. This facilitates participation since those who are given independent responsibility and authority are more likely to participate than those who are closely controlled and restricted in their freedom of action. Those who are given much independent authority are also likely to show more initiative and a greater sense of responsibility than those who are tightly controlled, and better personnel are likely to be attracted by greater freedom and responsibility.

The decentralization practiced by ADEMI has other advantages. It brings staff closer to clients and makes it more probable that they will learn of client opinion and experience. It reduces span of control and thus increases familiarity of those at all levels with those aspects of the program it is important for

them to know about. Thus decentralization, would appear to be, in its own right, a factor contributing to program, success.

#### 4. Program Planning

ADEMI's planning needs are minimal, given the relatively simple nature of the program. It does not depend, as would for example a rural development project, on a complex concatenation of events, but merely on obtaining funds, extending credit and obtaining repayment, and the administrative steps necessary to accomplish those aims. In connection with these functions ADEMI's planning processes are quite satisfactory. They consist in establishing annual program budgets and goals and district by district performance targets for the number and amount of loans to be extended and for solidarity groups to be formed. Given the nature of the program, however, it is not ADEMI's planning processes which determine success so much as its ability to raise funds, rapidly expand its loan portfolio and maintain collections at a high level. These results are a function of planning in the sense of anticipating personnel needs, but those are easy to anticipate on the basis of known or probable funding levels. The program's rapid growth is more a function of its method of promoting loans and repayment and its choice and orientation of personnel to carry out those tasks.

#### 5. Flexibility

Also more important to ACCION and ADEMI's success than planning per se is the highly flexible, empirical nature of their approach. They do not look upon plans and procedures as blueprints to be slavishly followed, but rather as hypotheses (about the most effective way to accomplish program goals), to be constantly revised in the light of experience. (An example of ADEMI's empiricism is its policy of starting with small, short-term loans and increasing loan size as the borrower demonstrates reliability, but ACCION and ADEMI are also flexible in more far reaching and basic ways.) This flexibility permits the program to evolve rapidly in the direction of ever increasing effectiveness and efficiency, rather than tending to lock it into objectives and methods which have proven inappropriate, or at least delaying recognition of inappropriateness. The participatory nature of the program, as already noted, generates the feedback necessary to identify desirable changes.

#### 6. Information, Monitoring and Evaluation Systems

ADEMI has good information, monitoring and evaluation systems. There are ways in which they could and should be improved, but they are superior to those of many comparable organizations. Data is computerized and readily available, for example, on loan amounts and delinquency, sales, profits and employment generated, by borrower, type of enterprise and date. These

data are directed not merely toward inputs and outputs, as is so often the case, but toward program impact as well.

Delinquencies and other important matters are systematically reviewed with advisors once a month by headquarters personnel, and more frequently, though on a case basis, by regional coordinators. Personnel evaluation forms are used holding advisors accountable for the amount of loans and delinquencies, among other things. And supervision is layered, the middle layer being regional coordinators, located in their regions, to assure geographical proximity and manageable span of control.

It is reasonable to suppose that all these features make an important contribution to ADEMI's success, directly by tending to assure high quality performance by all personnel and promptly identifying and dealing with problems, and indirectly by facilitating the empirical process of program evolution and improvement.

## 7. Personnel

Choice of personnel at both the leadership and staff levels has been a most important determinant of success for both ACCION and ADEMI. In choosing personnel both organizations attach considerable weight to motivation and orientation (combining social goals with private sector orientation), as well as profes-

sional qualifications. ACCION is an elite group of professionals who view their work not just as a job, but as a very meaningful and important task. The same may be said of ADEMI's director and of its staff in general, though "select" may be a more appropriate word than elite in this context. The staff is an elite corps compared to others performing comparable functions in the society, but not of the elite. Significantly, they are willing to work for much lower pay than would professionals of comparable preparation and demonstrated ability in for-profit and governmental organizations.

ADEMI's staff selection process is significant. It seeks at least three qualified candidates for each position (preferably five in the case of advisors). The candidates are interviewed by three staff members having no personal connection with them. The preferred candidate or candidates are then put through a brief trial period, which, in the case of advisors, consists in making the rounds with an existing advisor for a week. This also constitutes the beginning of training for the chosen candidates. New advisors have provisional employment status for three months after beginning work, during which period they are closely supervised. Advisors have been discharged during the probation period. Advisor candidates must have a university degree, or close to one, and/or experience, in economics, business administration or accounting, and show a high level of motivation toward ADEMI's goals.

Interpersonal relations among ADEMI staff members appear to be excellent and morale high. This would seem to be to an important extent a result of the organization's participatory mode of operations. Staff are encouraged to make inputs at all levels, and are listened to.

#### 8. Long-term Commitment

Another important feature of both ACCION and ADEMI is their long term commitment to the programs in which they are engaged. These are not limited term, one shot projects, but efforts to develop a significant sector of the economy in an extensive and lasting way. This permits the evolution of sound development which is less likely to be undone by supervening events than that resulting from more limited projects.

#### 9. Linkages and Funding Sources

ADEMI's extensive linkages to government, private and international organizations have provided significant support for the program, including approximately (the figures have been converted to dollars at the approximate current exchange rate) \$100,000 in grants and \$175,000 in loans from the Dominican Government, \$36,500 in local private sector donations, \$360,000 in AID grants,

\$9,600 in grants and \$500,000 in loans from the IDB, and a \$5,000 grant from the German Technical Cooperation Organization (GTZ).

The members of ADEMI's board of directors are from various private enterprises and the following service and government organizations: the Extension Centers of the Association for Continuing Education, the Foundation for Community Development, the Enterprise Finance unit of the Banco Popular Dominicano, the Dominican Association for Agricultural Insurance, the Dominican Federation of Sugarcane Planters, the Technical Secretariat of the Presidency, the Secretariat of State for Industry and Commerce, the Institute for the Development of the South, and the Foundation for the Integral Development of the Eastern Region.

These linkages and less formal ones to other private sector, non-profit, Dominican organizations, such as the Dominican Development Foundation, and the Educational Credit Foundation, lead to coordination of programs and mutual support. Even closer linkages exist at the regional level. Programs outside of Santo Domingo are endorsed by and located on premises furnished by such organizations as local chambers of commerce, the Foundation for the Development of Eastern Region, the Foundation for the Development of the Southern Region, the Institute for the Development of the South, the Association for the Development of the Province of La Romana, the Association for the Development of Duarte

Province, the Association for the Development of San Cristobal, and the Livestock Growers Association of Nisibon.

It is important to note that the above-described institutional characteristics of ACCION and ADEMI are, for the most part, synergistic. That is to say, they will not work as well (if at all) individually as they will in combination. Thus, for example, good people who are overcontrolled will not work as well, or will leave the organization. Flexibility is of no use without good information, and, conversely, good information without flexibility accomplishes little in the way of program evolution.

## B. Training

### 1. ACCION

ACCION does not run training courses. Rather it trains personnel of affiliated organizations through personal contacts of several sorts: between ACCION in-country advisors and local affiliate personnel; between visitors from ACCION headquarters and local personnel; between headquarters personnel and local personnel visiting headquarters; among personnel of local organizations and headquarters at annual meetings; and by sending personnel from one local organization to another to provide technical

assistance. All these forms of contact are looked upon as training and encouraged, and are, according to the testimony of the Director of ADEMI, of great value. The ACCION experience would seem to demonstrate that training need not be formalized to be effective.

## 2. ADEMI

Training within ADEMI exhibits a similar informality, directness and economy of means. Personnel are trained on the job under the guidance of supervisors and peers. New advisors are sent out with the best, experienced advisors for up to a month to observe their way of working and learn from them. After that, the regional coordinators visit the new advisors twice a week for three months to assure that they are approaching their job in an appropriate manner and to instruct them.

The various meeting of advisors and other personnel held regularly throughout the year (sec.II.A.2. above) also are intended as learning experiences as well as opportunities to discuss problems and policies. The participants share ideas and experiences on important themes, and key staff members make instructional interventions where appropriate. The process of discussing problems and policies at such meetings is also an important learning experience. The success of the ADEMI program and the apparent effectiveness of the advisors reinforce the conclusion

reached in connection with ACCION that training need not be formalized to be effective.

### 3. Clients

ADEMI clients receive technical assistance, most notably in bookkeeping and operations management, from the ADEMI advisors, and this is a form of training. However, there has been no other training for clients, and there are those who feel that it might be useful. Judging from client success and opinion, the need for more and more formalized training is not a pressing one. (Clients when asked whether they would like training usually respond with a vague affirmative, but are unable to identify specific needs.) However, that begs the question. The important question is what the marginal return on such training would be, whether a dollar invested in more intensive training would generate more employment than an additional dollar invested in the present system, or, put another way, whether the cost/benefit ratio of the training would be more favorable than that of the present model with its low level of training. There would appear to be no way of determining this short of a study of the two models in action in comparable environments. It should be noted that this question relates more to the success of a particular type of program, microenterprise credit, than to that of PVO programs in general.

### C. Sustainability

Sustainability is, as already indicated, basic to the ACCION/ADEMI program model. Interest rates are set to cover operating costs, at close to market rates, with precisely that end in mind.

In addition, local affiliates such as ADEMI are set up with linkages and encouraged to develop more, as ADEMI has, in order to assure sustainability.

Borrowers are investigated to assure the likelihood of their repaying loans, though the indicators of credit worthiness used depart from the traditional. Since many of the borrowers, by the very nature of the target group, have insufficient assets to serve as collateral and are unable to obtain a cosigner with such assets, determination of creditworthiness is based on borrower answers in interviews by the credit program advisors, their reputation among their neighbors, those from whom they buy materials and to whom they sell their products, and the manner in which they are observed by the advisors to conduct their business. In certain cases loans are to "solidarity" groups, all members of which are responsible for repayment regardless of repayment by individual members. Timeliness of repayment is tracked very closely, and borrowers are visited weekly to assure timely repayment and to help them overcome problems which may be interfering with repayment. Loans are written off only where it is clear

that the borrower will never be able to repay or does not intend to.

The one potential financial weakness of the ADEMI program is that it does not have an official system for taking default rates and inflation into consideration in setting interest rates and/or commissions, so as to preserve its capital, at its real value. (It has not even calculated a default rate as such, since it carries on its books as in force a good many loans which are over 90 days or even a year delinquent. Some of these loans will, judging from past experience, be repaid and are delinquent only because of temporary problems encountered by borrowers. Microbusinesses, with their low capital investment and overhead and ability to operate out of the owner's home or other low cost or cost free facility, are extraordinarily resilient.) As explained below, ADEMI currently has reserves considerably more than sufficient to cover probable defaults, as well perhaps as the effects of inflation. However, it needs, an official policy of setting interest rates and commissions on the basis of periodic recalculation of the effects of inflation and defaults on the maintenance of its capital.

ACCION and ADEMI are specialists in the microenterprise credit program and have refined their approach into an apparently extremely effective tool of development benefitting those at the lowest levels of the income scale, both men and women.

### III. Future Directions

#### A. Program

The following sections set forth the evaluators' suggestions for strengthening the ACCION/ADEMI program. In a number of cases where there have been significant differences of opinion about the appropriate course of action we are merely endorsing what ADEMI is already doing or planning to do. In some of these cases ADEMI has faced and/or will face pressure to change its decision (e.g. with regard to maintenance of close to commercial interest rates). In those cases particularly, we wish to add our voice in affirmation of ADEMI's decision.

##### 1. Self-Sufficiency

As mentioned in the discussion of self-sufficiency above, ADEMI does not have an explicit, official policy of taking defaults and inflation into consideration in setting interest rates and commissions. These risks must, in some cases, be covered through commissions rather than interest rates due to legal limits on interest rates. In this connection it is important for ADEMI to monitor the effect on the portfolio of the time period of its loans, as its plans to introduce longer term, fixed capital

(as opposed to short term, working capital) loans will reduce turnover and hence commissions. At present ADEMI's earnings derive from a <sup>18</sup> % interest rate and a 6% commission. As working capital loans tend to average about 6 weeks in duration and revolve approximately 8 times a year, earnings on such loans can amount to upwards of 50% of loan capital per annum and thus make a very significant contribution to the maintenance of ADEMI's capital at original value.

ADEMI does maintain reserves against losses due to defaults, one required by BID and another set up by ADEMI on its own. The amount in the IDB reserve is currently well in excess of estimated defaults on IDB funded loans. The total amount of these reserves was in excess of 1.1 million Dominican pesos as of the end of 1986 as against delinquent loans of less than RD\$500,000, less than half of which had been delinquent for over 90 days. Many of these loans have been on the books since the beginning of the program, as ADEMI has not made a systematic practice of declaring loans in default. Thus the reserve covers not merely recent losses, but most of those since the beginning of the program. In addition, many old loans are still being and will be paid off, for which reason ADEMI does not readily declare loans in default. Although ADEMI needs to get a better fix on its default rate, it is clear that if reserves continue at levels comparable to those held at present, defaults present no threat to solvency.

More problematical is the danger of the value of ADEMI's capital shrinking substantially under the impact of inflation. Although the rate of inflation in 1986 was under 7%, in 1984 and '85 it was over 24 and 37% respectively, and this year it is likely to be between 20 and 30% according to the best estimates. At the latter rate, the value of ADEMI's current assets, slightly over RD\$2.7 million at the end of last year, would depreciate by approximately RD\$500,000 to 800,000 in one year, which could be close to what might be left of current reserves after allowance for defaults. At that rate the reserves could be rapidly exhausted.

The picture is complicated by the fact that a large part of ADEMI's loan portfolio comes from IDB peso loans which do not require maintenance of value. Thus, much of the impact of inflation will be on IDB's capital rather than ADEMI's, except in so far as IDB may be willing to relend those funds to ADEMI. Time did not permit a more precise analysis of the potential impact of inflation on ADEMI's own capital, but it is apparent that the risks are substantial and that precise and continuing calculations should be a part of ADEMI's official financial procedures.

There are those who argue that ADEMI, as a public service organization, should subsidize interest rates to its borrowers. We disagree. The borrowers are able to pay much higher interest rates and still increase their profits, given 20% a month interest

they commonly pay to money lenders. We are motivated not by free market dogmatism, but rather by recognition that lending money at less than its real cost is false charity. It reduces the amount available for other equally needy borrowers and indeed for the same borrowers in the future. Were more than enough money available for the needs of the microenterprise sector, this would not be a problem, but that is not the case.

Subsidized rates also create unhealthy expectations on the part of borrowers, an unwillingness to borrow from banks and a continued dependence on charitable lending. For this reason ADEMI's rates should be slightly higher than those charged by commercial banks, rather than lower as at present, so as to encourage borrowers to transfer to the commercial banks as soon as they are able, in order to tap that resource. A contrary tendency has occurred among other institutions in the case of agricultural credit, with the more well-to-do borrowers falsifying information or bribing credit agents to gain access to the subsidized loans. That may not be a problem with ADEMI as presently constituted, but there is no reason to run the risk. The program should operate on an altogether financially sound and sustainable basis.

## 2. Delinquencies

None of the above should be taken to imply that we disapprove of ADEMI's policy of keeping delinquent but not clearly defaulted

loans on the books (though it may consider them as probable defaults for the purpose of calculating interest rates and commissions). While those who attempt to avoid repayment without good reason should be declared in default, subjected to legal process and declared, as is ADEMI policy, ineligible for future loans, those who are delinquent because of problems beyond their immediate control should be helped to overcome their problems and remain in the program.

### 3. Prioritization

ADEMI is currently in favor of reducing the number of loans to vendors in favor of loans to producers. This would be a good idea if, as is thought by ADEMI, producers generate more employment per dollar loaned than vendors, although this supposition should be checked out.

In addition, vendors who reduce their prices as a result of ADEMI loans may take business away from other vendors, along with meeting any increased demand generated by the reductions in price. (This too should be studied). If that is the case, we are into something approximating a zero sum game; what one vendor gains another, to a considerable extent, loses. Even if this is not the case, giving some vendors access to non-usurious loans may have an adverse impact on others in that the ADEMI borrowers sometimes buy out other vendors' stalls with their

increased earnings, possibly reducing the other vendor to the status of low income employee or unemployment. In some cases the lucky borrowers use their profits for usurious loans.

We don't know for certain what the overall effects of lending to vendors are, but it would not be at all surprising if they were adverse. These questions should therefore be studied.

It is not enough to gather information only on program participants, as at present. The effect on those who don't participate should also be considered. If adverse effects are found, an alternative to discontinuing loans to vendors entirely would be to discontinue loans to those who use their earnings in ways which defeat program goals.

Similar problems may exist in the case of certain kinds of producers. Where the producer is competing with imports or industries which use capital intensive means of production, or is moving into an expanding market, employment and income distribution objectives will be served by ADEMI loans. But this may sometimes not be the case. The producer may simply gain an advantage over others of similar income level and employment generation potential. It is argued that among the highly adaptable micro-producers this merely results in the loser shifting to another product, but this too warrants study.

Generally ADEMI and/or ACCION should be looking at which kinds of enterprises yield the most favorable employment and income distribution effects and which little if any such benefits. It is not good enough to assume that every kind of loan is equally beneficial or even beneficial at all. This question would seem important enough to warrant the funding of research even within ADEMI's low cost, no frills approach.

#### 4. Financing Capital Investment

As ADEMI moves into the financing of capital investment it needs to be careful of two things. First, as already mentioned, it needs to remain alert to the effect of the shift from short term to long term loans on earnings from commissions and hence preservation of capital. The capital investment loan fund in other words, will need a higher interest rate.

There has been talk of a lower interest rate for capital investment loans, because of their longer time it takes them yield a return. We consider that this would be a mistake. It would result in a reduction in funds available for future lending and should not be necessary. The problem of delay in earnings from capital investment can be handled by a grace period.

Second, ADEMI should avoid financing capital equipment that

will reduce employment generated by the enterprise, unless there are other compelling reasons for doing so.

#### 5. Client Training

Questions have been raised about whether ADEMI should do more to train clients. As noted above, client training is limited to technical assistance, largely in bookkeeping and operations management, and whether or not more training should be done depends on whether research reveals that the marginal rate of return on such training would be higher than that of using the money for additional loans instead.

There is, however, one kind of training which costs little and offers other advantages, peer group training consisting in meetings by entrepreneurs in the same business to exchange ideas and information and help each other analyze problems and opportunities. The solidarity produced by such learning sessions could produce other useful results. What we are talking about here is promotion by ADEMI of trade associations for the initial purpose of the members learning from each other.

#### 6. Rapid Expansion

ADEMI has been in a period of rapid expansion for the last several months and plans to continue that expansion. ADEMI's structure

and mode of operations as well as the types of people it hires as advisors are exceptionally adaptable to rapid expansion, as recent events have demonstrated. However, rapid expansion always places stress on organizations and gives rise to unforeseen problems which may grow, also rapidly, to serious proportions before management becomes aware of them. Although this need not slow down expansion, it does argue for particularly careful and continuous monitoring of the program during the period of rapid expansion. Several measures would appear appropriate.

a. Internal evaluations of the program should occur at least every six months and should stress the effects of expansion, looking, for example, at repayment rates, changes in loan size, the percentage of new borrowers and employment generation indices.

b. ADEMI's computerized information systems should be perfected to assure rapid recording of critical data, with particular attention to ongoing monitoring of new data needs and appropriate modification of the system. One area in which the current system appears weak is in promptly recording the results of advisor visits to delinquent borrowers. ADEMI argues against daily advisor reports on visits to clients. Their point may be well taken. There are important trade-offs between having all the information one would like, on the one hand, and overburdening line personnel and stifling initiative

on the other. ADEMI's flexibility and decentralization are among its great strengths and should not be sacrificed on the altar of management controls, which are often counter-productive. This is the path of bureaucracy. (There was an English dimestore magnate a decade or so ago who would periodically cause profits to jump by going through his stores and throwing out forms.) However, there are also important information needs, particularly in periods of rapid expansion. The trick is to simplify reporting requirements as much as possible and weigh the value of all new information requests with a sharply critical eye. This usually means that someone other than the person who generates the request should review it.

c. Qualitative criteria, such as employment generation, average loan size and new versus follow on loans must be stressed, at the advisor level, along with quantitative criteria such as growth in the number of or total monetary amount of loans. The current advisor evaluation form is weak in qualitative criteria and should be strengthened accordingly, for reasons which go beyond the potential problems of expansion, namely the importance of who the program affects and how, not just its size.

d. Current monthly advisor and coordinator meetings should continue (even beyond the period of rapid expansion),

and at least a few minutes in each should be devoted to discussing growth problems.

e. Limitations should be maintained on span of control by increasing the number of coordinators as the number of advisors increases. At some point, coordinators will have too many advisors working for them to monitor their programs and assist them adequately. (Considering that each coordinator supervises 7 or 8 advisors and that each advisor has 70 or more clients, this point could be reached soon). A similar effect could occur at the operations management level. However, the temptation to further layering often engendered by horizontal expansion should be resisted. An example of such layering would be appointment of subzone coordinators under the zonal ones. Sometimes layering is necessary or advisable, but more often than not it introduces distortions into the communication process (the more people handle a message the more likely it is to be changed), impedes two way communication, and has a deadening effect.

## 7. Graduation

The problem of graduating clients from ADEMI to commercial banks, so as to tap commercial bank resources and save ADEMI funds for those who are clearly ineligible for bank loans, has been much discussed. Thirty-eight ADEMI clients have graduated,

but it has been difficult, according to ADEMI, to get banks to take on those who are no longer microentrepreneurs but who lack conventional guarantees or require loans which are too small for the banks to be interested in, because of processing costs. ADEMI also feels that there is reluctance on the part of banks to do business with clients quite as rough hewn as many of those with whom ADEMI deals.

The guarantee problem is an important one. ADEMI has requested financing from the GTZ for a guarantee fund, which would appear to be a solution.

Part of the problem may also be the need for more active efforts on ADEMI's part to work with the banks to promote transfer of clients. During the course of the evaluation, discussions were held with the Banco Popular, a commercial bank which advised that it was prepared to set up a fund for loans to ADEMI clients, and the Banco Gerencial y Fiduciario, a commercial bank which indicated willingness to consider some ADEMI clients. ADEMI plans to test this willingness.

Pegging ADEMI interest rates a notch above commercial bank rates, so as to encourage ADEMI clients to go to the banks, might also help. Still it is quite possible that many of ADEMI's larger clients will be unattractive to banks because of the small size of their loans and the accordingly high cost of processing them.

Added to this is recent legislation requiring banks to set aside a certain portion of their funds for microentrepreneurs. ADEMI's proposed response to this situation is to form a Microenterprise Bank which would take funds earmarked for microentrepreneurs from the commercial banks and administer them. This seems a promising idea. If it were to come about, the problem of graduation would no longer be so pressing.

Another aspect of the graduation problem is the temptation for advisors to repeat loans to prior borrowers. The advisors can move more money this way, because they don't need to spend time investigating these borrowers, as they do new ones, and because with each loan the borrower's volume of business, and hence the size of the loans he needs, goes up. It is desirable, however that new borrowers be brought into the program, to expand the entrepreneurial base and to distribute the benefits of the ADEMI program as widely as possible. Care must therefore be taken to counter any tendency on the part of advisors to favor prior borrowers. One way in which this can be done is, as already suggested, to evaluate advisors on the number of new borrowers they bring in.

## 8. Solidarity Groups

Another often discussed problem is ADEMI's relatively poor performance, compared with other ACCION affiliates, in promoting solidarity groups. The formation of solidarity groups is favored by ACCION because of the advantages to microentrepreneurs of joining together for various purposes, such as exchange of management information and the lower cost of administering group loans, especially very small ones. There is also the consideration that at present solidarity groups in the Dominican Republic have a lower delinquency rate than individual borrowers, and that elsewhere they have a lower default rate. The default rate has not been systematically calculated by ADEMI but appears to be relatively low, so that defaults may be a marginal reason for emphasizing solidarity groups here. (This question should be reexamined when a default rate has been established.)

ADEMI also is reluctant to spend much time on solidarity groups because they have, in the Dominican Republic, been composed of very small vendors. However, this is not a necessary condition. Groups could be promoted among producers, and the size of the enterprise need not be a criterion.

Finally, ADEMI views it as a transgression against free enterprise to insist on individual entrepreneurs joining groups. Whether

one accepts that position or not, perhaps the best solution to the solidarity group problem is the gradual one, accepted by ADEMI, of aiding in the formation of groups for specific purposes helpful to their members, such as exchange of information and education, and the gradual evolution of these groups, as proves suitable, into something approximating solidarity groups.

ADEMI has also given some thought to the formation of a micro-industrial park where microentrepreneurs would share stocks of supplies and machinery they cannot afford to own separately at their low volume of business, and which would provide processing for which they must currently turn to much larger enterprises. This idea would seem to have several advantages: it could reduce supply inventory problems, as well as the cost of supplies as a result of bulk purchasing; it would permit the microentrepreneurs to capture the value added by more sophisticated processing which they currently have to contract out; and it would bring the microentrepreneurs together for other purposes such as marketing, borrowing and contracting among themselves. The idea would seem to merit further exploration. One caveat is that the machinery pool should not be permitted to become a means of introducing capital intensive in lieu of labor intensive methods of production.

## 9. Women Entrepreneurs

We were unable in the time available to determine whether women entrepreneurs are being served proportionately by ADEMI. The question arose from a table in the recent IDB evaluation revealing that only 21% of ADEMI's clients are women. It is possible that this is because there are fewer women microentrepreneurs, but one of the advisors for a zone of Santo Domingo where 21% of the borrowers are women estimated that 33% of the microentrepreneurs in this area are women. Up-to-date information on the percent of women microentrepreneurs in the Dominican economy doesn't exist. ADEMI should take a rough sample of various areas, perhaps through a contract with the IDB evaluators, to determine the approximate proportion of women entrepreneurs, particularly in productive activities, and, if it is found that women are under-represented in the program, steps should be taken to find out why and to remedy the defect. One possible cause of such a problem is that ADEMI has had few women advisors and has none at present. This is not to say that women advisors must be hired. There are some real problems, such as unwillingness of Dominican women to use motorcycles, the only affordable and workable means of transportation outside of Santo Domingo, problems with being out late in the areas inhabited by microentrepreneurs, etc. However the feasibility of hiring women advisors should be reexamined as well as improving the performance of male advisors with regard to women entrepreneurs, if this is found to be defective.

ANNEX A: PERSONS INTERVIEWED

ADEMI

Camilo Lluberes, President of the Board of Directors  
Pedro Jimenez, Executive Director  
Horacio Ornes, Second Vice President, Board of Directors  
Telesforo Gonzales, Planning and Evaluation Manager  
Jose Guzman, Financial Manager  
Rafael Martinez, Operations Manager  
Manuel Cortorreal, Officer in Charge of Solidarity Groups  
Manuel Ovalle, Coordinator for Santo Domingo  
Puro Ramos, Coordinator for Eastern Zone  
Advisors  
Abel Cruz, Southern Zone, Santo Domingo  
Rafael Medina, Solidarity Groups  
Cesar Mella, San Pedro de Macoris  
Primitivo Rodriguez, San Cristobal  
Hector Betances, statistician

ADEMI Clients

San Cristobal

Luis Medina, cabinet maker  
Isadora Pinera, purse maker

Santo Domingo

Danilo Abreu Cadena, cabinet maker  
Teofilo Jimenez, ceramics  
Miguel Matta, candle maker  
Francisco Wilson Santos, jeweler  
Luis Uceta, furniture maker  
Ramon Uceta, business manager  
Raul Ybermateo, shirt maker  
Solidarity group: food staple vendors  
Juan de los Santos  
Pedro Infante  
Esteban Ramirez  
Aurelio Sabala

San Pedro de Macoris

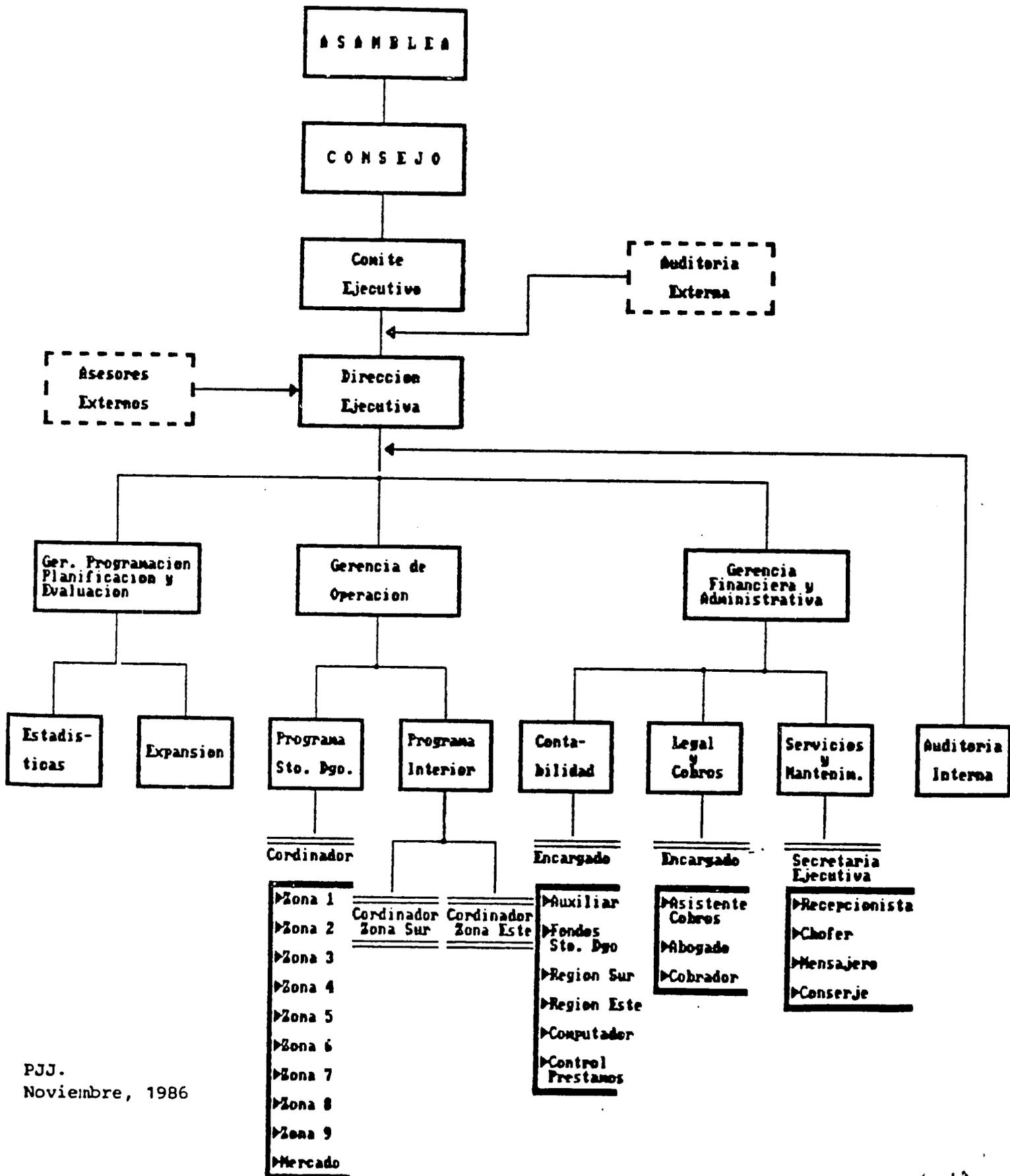
Ramon Mejia, shoemaker  
Jose Gilberto, cabinetmaker

Others

Gerardo Bobadillo, Executive Director, Banco Gerencial  
y Fiduciario  
Sergio Cedeno, Executive Director, FUNDESIRE (Foundation  
for the Integral Development of the Eastern Region)  
Douglas Crowe, Private Enterprise Advisor, USAID  
Arelis de Gomez, Consultant, IDB evaluation

George Hazoury, Executive Vice President and General Manager,  
Banco Gerencial y Fiduciario  
Jorge Herera, Subdirector, National Office of Planning  
Fernando Oliverro, Second Vice President and Manager of  
Business Department, Banco Popular Dominicano  
Vanessa Saladin, Consultant, IDB Evaluation

ADEMI: ORGANIGRAMA ACTUAL



CALENDARIO REUNIONES PERSONAL OPERATIVO  
1 9 8 7

<u>FECHA</u>	<u>REUNION</u>	<u>LUGAR</u>
ENERO 16	ASESORES ME Y GS (TODOS)	SANTO DOMINGO
FEBRERO 2	COORDINADORES DE ZONAS	SANTO DOMINGO
FEBRERO 13	ASESORES SANTO DOMINGO	SANTO DOMINGO
FEBRERO 20	ASESORES ZONA ESTE	SAN P. MACORIS
FEBRERO 26	ASESORES ZONA SUR	AZUA
MARZO 6	COORDINADORES DE ZONAS	SANTO DOMINGO
MARZO 13	ASESORES SANTO DOMINGO	SANTO DOMINGO
MARZO 27	ASESORES ZONA ESTE	SAN P. MACORIS
ABRIL 3	COORDINADORES DE ZONAS	SANTO DOMINGO
ABRIL 15	ASESORES SANTO DOMINGO	SANTO DOMINGO
ABRIL 24	ASESORES ZONA SUR	AZUA
MAYO 8	COORDINADORES DE ZONAS	SANTO DOMINGO
MAYO 15	ASESORES SANTO DOMINGO	SANTO DOMINGO
MAYO 22	ASESORES ZONA ESTE	SAN P. MACORIS
JUNIO 5	COORDINADORES DE ZONAS	SANTO DOMINGO
JUNIO 18-20	TALLER DE TODO EL PERSONAL	<hr/>
JULIO 3	COORDINADORES DE ZONAS	SANTO DOMINGO
JULIO 15	ASESORES SANTO DOMINGO	SANTO DOMINGO
JULIO 24	ASESORES ZONAS SUR	AZUA
AGOSTO 7	COORDINADORES DE ZONAS	SANTO DOMINGO
AGOSTO 14	ASESORES SANTO DOMINGO	SANTO DOMINGO
AGOSTO 21	ASESORES ZONA ESTE	SAN P. MACORIS
SEPTIEMBRE 4	COORDINADORES DE ZONAS	SANTO DOMINGO
SEPTIEMBRE 16	ASESORES SANTO DOMINGO	SANTO DOMINGO
SEPTIEMBRE 25	ASESORES ZONA SUR	AZUA
OCTUBRE 2	COORDINADORES DE ZONAS	SANTO DOMINGO
OCTUBRE 16	ASESORES SANTO DOMINGO	SANTO DOMINGO
OCTUBRE 23	ASESORES ZONA ESTE	SAN P. MACORIS
NOVIEMBRE 6	COORDINADORES DE ZONAS	SANTO DOMINGO
NOVIEMBRE 13	ASESORES SANTO DOMINGO	SANTO DOMINGO
NOVIEMBRE 20	ASESORES ZONA SUR	AZUA
DICIEMBRE 4	COORDINADORES DE ZONAS	SANTO DOMINGO
DICIEMBRE 18-20	TALLER DEL PERSONAL	<hr/>

## ASOCIACION PARA EL DESARROLLO DE LA MICROEMPRESA

## ADEMI

Program Indicators 1983 - 1986

ITEM	MICRO PRODUCERS	SOLIDARITY GROUPS	TOTAL
1. DIRECT CLIENTS	2,695	1,730	4,225
2. DIRECT BENEFICIARIES	14,155	1,730	15,885
3. NUMBER OF LOANS DISBURSED	7,130	1,978	9,108
4. AMOUNT DISBURSED (\$RD)	\$ 9,574,972	\$ 1,174,532	\$ 10,749,504
5. AVERAGE LOAN SIZE (\$RD)	\$ 1,089	\$ 594	\$ 998
6. EMPLOYMENT GENERATION			
- JOBS CREATED			2,556
- JOBS SECURED			11,589
- TOTAL IMPACTED			14,155
7. ACTIVE LOAN PORTFOLIO (31. Dec. 1986)	\$ 1,602,992	\$ 89,816	\$ 1,692,808
8. LATE PAYMENT RATE	17%	6%	

SOURCES OF INCOME (\$RD)	DONATIONS	LOANS	TOTAL
1. PUBLIC SECTOR (D REPUBLIC)	\$ 300,000	\$ 525,000	\$ 1,125,000
2. PRIVATE SECTOR	109,550		109,550
3. USAID	1,085,369		1,085,369
4. BID I	28,915	601,579	630,494
5. BID II		463,253	463,253
6. GTZ	15,000		
7. TOTALS	<u>1,538,834</u>	<u>1,589,832</u>	<u>3,128,666</u>

Exchange rate (April 1987): \$US 1 = \$RD 3.06

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## ACCION INTERNATIONAL

Combined Impact of 25 Affiliated Micro-enterprise Programs  
in 12 Countries

<u>Indicator</u>	<u>1982-1986*</u>	<u>1987**</u>
1. Total Amount Loaned	US\$ 19,582,303	21,000,000
2. Average Loan Size	\$US 146	204
3. Average Loss Rate	less than 1%	< 1%
4. Jobs Created/Strengthened	24,470	26,250
5. Businesses Receiving Credit	49,680	23,229
6. Businesses Receiving Training	34,748	23,229
7. Total Direct Beneficiaries	74,520	34,843
8. Percentage of Women Beneficiaries	56%	56%
9. Total Indirect/Direct Beneficiaries	372,600	174,215

(\*) Includes totals from 8 countries for period 1982-1986. The majority of the affiliated programs began their micro-business lending during this period.

(\*\*) Projected figures.