

Stemming the Tide of Mission Drift: A Case Study of ADOPEM



Founded in 1982, the Dominican Association for the Development of Women (ADOPEM), began as a non-profit institution working to provide women affordable financial services and training in order to improve the quality of life for disadvantaged Dominican families. ADOPEM's mission to "promote the development of Dominican families by incorporating them into the formal economic and financial system" had an urgency in the Dominican context when it was founded that still remains. Presently more than 42 percent of the population lives below the poverty line. According to the World Factbook, "although the economy is growing at a respectable rate, high unemployment and underemployment remains an important challenge. The country suffers from marked income inequality; the poorest half of the population earns less than one-fifth of GNP."

For its first 15 years, ADOPEM experienced enviable growth rates: From 1982 to 1998 it disbursed 76,578 loans for a total amount of RD\$ 356.5 million (US\$ 22.7 million). The asset portfolio grew by 112.5 percent and 54.6 percent in 1997 and 1998 respectively, prompted by a 133.3 percent growth in the loan portfolio. In addition, from 1996 to 1998 commercial debt obligations increased by 162 percent.

Many microfinance institutions (MFIs) that began as non-governmental organizations (NGOs) find that the single largest constraint to growth is the inability to access sufficient, cost-effective funding. ADOPEM's founder, Doctora Mercedes de Canalda, recognized that ADOPEM's double-digit growth—and its ability to meet the needs of low-income women—could not continue unless the organization changed its business model. In November 1999, under Dra. Canalda's leadership, the NGO began exploring the possibility of transforming to a regulated financial institution (RFI).

The commercialization of the microfinance sector in the past few years has been well covered and commented upon, and includes not just increased access to local commercial funds but also an influx of international investors. According to the Wall Street Journal, in 2008, the sector attracted \$14.8 billion in foreign capital, up 24 percent from the previous year. This availability of commercial capital is leading many MFIs to transform from a non-profit to a for-profit business model. Within the Women's World Banking network, nearly half of the members are regulated financial institutions; of those that are still NGOs, two-thirds are in the process of transforming. Private capital is fueling the growth of the sector that is necessary to close the gap still remaining to reach the millions who lack access to basic financial services. But there are concerns in the industry that the transformed MFIs will drift away from their original mission of serving the poor because of the need to maximize profit for their investors.

Women's World Banking (WWB) has been exploring the benefits and potential negative implications of increased commercialization on the microfinance industry since 2002. The findings, published in *Stemming the Tide of Mission Drift: Microfinance Transformations and the Double Bottom Line*, found many benefits to a MFI transforming, including: increased product diversification, increased access to funding, increased transparency, and increased outreach and growth. Two unexpected trends also emerged: the study found that average loan size increased and—while the *absolute* number of women clients served increased—the *percentage* of women clients fell.

This paper is a case study of how one institution, ADOPEM, fared post-transformation, examining both the benefits and challenges of transforming. Of particular interest to WWB and its other network members is how Banco ADOPEM, as the transformed entity is called, has remained true to the founding mission of the organization, which the NGO had fulfilled with an explicit focus on women clients. As a regulated financial entity, Banco ADOPEM must serve all clients, regardless of gender. Yet the bank has been able to

both increase the number of its women clients by 62 percent post-transformation (2008) and retain them as 77 percent of the total client base. The specific strategies that Banco ADOPEM has followed to meet its dual objectives of serving its investors while retaining and expanding its women clients can serve as useful lessons to an industry that is increasingly grappling with the issue of mission drift.

Why Focus on Women?

ADOPEM's original reason to focus on women clients was simple: In the Dominican Republic, women make up 50 percent of the population but 70 percent of the poor. Unemployment is more than twice as high among women—29 percent versus 11 percent for men, while 35 percent of households are headed by a woman.

Working with women to integrate them and their families into the formal economic system has additional benefits. With financial independence comes increased self-confidence, greater decision-making power in the household, and more respect from the community. These intangible benefits have been borne out by customer research studies that WWB has conducted around the world and also with ADOPEM's clients. Indeed, when a group of ADOPEM clients was asked what they associate with the MFI, there was continuity around one theme: ADOPEM supports them both financially and emotionally:

“We have faith that ADOPEM can help us. I trust that I can reach my goals through ADOPEM.”

“Well, I don't have a husband but I have the bank.”

“[ADOPEM] means progress so that women can become independent.”

So how does an institution founded on serving women maintain that same focus after becoming a regulated financial institution?

ADOPEM at a Glance

Institutional Characteristics		
	Total assets (US\$)	56,475,637
	Offices	33
	Personnel	469
Outreach		
	Number of active borrowers	89,071
	Male	20,629 (23.16%)
	Female	68,442 (76.84%)
	Urban	44,348 (49.79%)
	Rural	46,185 (51.85%)
	Gross loan portfolio	39,151,586
	Average loan balance per borrower	US\$ 440
	Average loan balance per borrower/ GNI per capita	12.35%
	Number of deposit accounts	89,782
	Male	12,220 (13.61%)
	Female	76,654 (85.38%)
Overall Financial Performance		
	Return on assets	7.20%
	Return on equity	20.24%
	Operational self sufficiency	148.75%
Risk and Liquidity		
	Portfolio at risk > 30 days	3.28%

Source: The MIX Market, 2008 data

Why Transformation?

For ADOPEM, transformation was a logical next step at a time when the institution had a good market position, was financially sound and was focused on expansion. “We were in the business of empowering poor women in the Dominican Republic through access to credit and training,” says Dra. Canalda, “but at the same time we were aware that we needed to remain profitable in order to serve them better. Financing and operating costs were increasing and we were reaching a point where the NGO model was exhausting itself.”

Our core values and mission as an institution, as well as our strengths, would have hit a ceiling if we did not become a formal financial institution. We owed it to our clients; we

wanted to offer them a broader range of financial services and products. But to finance and grow our loan portfolio, we needed to access lower-cost capital, as well as to diversify our funding sources and depend less on donations and subsidized loans from international institutions.”

The Road to Transformation

The transformation process is rigorous, expensive and time-consuming, and the importance of a clear, focused strategy and process was clear to the ADOPEM Board of Directors when they approved the transformation in 1999. Dra. Canalda began by gathering information. With a grant from the European Community Support to Private Sector Development Program, she hired a consulting team to conduct an independent feasibility study. She also engaged her daughter, Mercedes Canalda de Beras-Goico, currently the Executive Vice-President of Banco ADOPEM.

The feasibility study identified ways to address major strategic and operational issues, including competitive positioning; business planning; accessing capital and shareholders; and transforming ADOPEM’s human resources, financial management, internal controls and branch operations. “The feasibility study became our Bible,” explains Canalda de Beras-Goico. The consulting team also conducted an internal assessment of ADOPEM’s institutional capabilities, which concluded that ADOPEM needed to improve its infrastructure and align its policies to those required of a regulated financial institution.

Dra. Canalda also sought expertise from the trailblazers who had overseen the most successful MFI transformations and savings programs in Latin America. Between 2000 and 2002, Dra. Canalda and Canalda de Beras-Goico met with leaders of BancoSol, Centro de Fomento a Iniciativas Economicas (FIE), PRODEM, Caja Municipal de Ahorro y Crédito (CMAC) de Arequipa, ProCredit and the Inter-American Development Bank. “The experience to talk openly and candidly with the most successful players in the sector was an invaluable

learning mechanism for ADOPEM,” according to Canalda de Beras-Goico. In addition, Dra. Canalda studied governing laws, the implementation of banking practices, and the overall management of a regulated financial institution specific to the Dominican Republic. ADOPEM leaders used this information to develop a detailed transformation strategy.

A major hurdle in the process was the country’s worsening economic climate. After a decade of rapid growth, the Dominican Republic’s economy entered a downward spiral in 2003, due in part to weak banking regulations. The economy shrank for the first time since 1990, and by December of 2003, inflation had reached 42 percent and the Dominican peso collapsed. As the first step in its transformation strategy, ADOPEM had sought to obtain a banking license. However, because of the crisis, the Central Bank ceased granting new banking licenses. In response, ADOPEM’s president and Board of Directors reformulated the strategy. Instead of applying for a banking license, ADOPEM would purchase an existing bank, obviating the need for a new license. Due to the domestic financial situation, a number of banks were in need of capital and, consequently, available for acquisition. The challenge was to find a bank that had a transparent track record, stable financial position and did not require a major investment.

After an exhaustive search, ADOPEM’s leadership decided to purchase Banco de Desarrollo del Valle S.A., including the totality of its assets and its banking license. The bank was established in 1987 and shared ADOPEM’s mission of economic development, particularly in rural areas. Canalda de Beras-Goico explains, “Banco de Desarrollo del Valle had four important advantages: it was small in size, it had a similar social mission, its operations were in compliance with the law and it provided us with valuable infrastructure.” Banco de Desarrollo del Valle had a loan portfolio valued at RD\$11.3 million (US\$ 639,000) distributed among 1,223 clients, with an average loan size of RD\$ 9,232 (US\$ 522). At that point in time, the bank was nearly decapitalized, and ADOPEM was

able to negotiate a purchase share price at 15 percent of their par value. ADOPEM committed to contributing capital to meet the regulatory requirements necessary to continue operations.

In March of 2003, the Monetary Board of the Dominican Republic approved the purchase. However, this did not yet guarantee that Banco ADOPEM would be permitted to operate at the national level or relocate its headquarters from La Vega, where the main headquarters of Banco de Desarrollo del Valle had been situated, to Santo Domingo. After a lengthy approval process, almost a year and a half after the purchase approval, the Monetary Board gave the authorization in December 2004. ADOPEM became Savings and Loan Banco ADOPEM and incorporated its 41,000 active customers into the new entity.

The first year of operation was one of impressive growth for Banco ADOPEM: in 2004, total assets increased by 263 percent, the credit portfolio grew 285 percent and savings grew by more than 400 percent. Perhaps even more telling is the fact that the institution was able to grow in spite of the Dominican economy. The Dominican currency continued to weaken—the rate of exchange in 2003 was RD\$ 17.76 to the dollar, and by the end of 2004 had declined in value to RD\$ 50.44 to the dollar. “The financial crisis was a frightening situation with a devastating effect on families’ budgets because it was speedily making them poorer,” Dra Canalda wrote in the 2005 annual report. “But for ADOPEM it was similar to 1998, when Santo Domingo was ravaged by Hurricane Georges. Most of our clients lost everything. A few days after the hurricane our credit advisors had already made a full inventory of our clients’ losses and the Board of Directors made the decision to give them emergency loans in order to help them rebuild their businesses and psychological support to take control of their lives. ADOPEM’s objectives are profoundly social, and they go beyond the financial statement of a contingent economic situation, whether it is the destruction caused by a force of nature or the ruin brought about by a financial ‘hurricane.’”

Benefits and Challenges of Transformation

INCREASED ACCESS TO FUNDING

Historically, NGO MFIs were highly reliant on subsidized or apex funding sources because of the limited commercial funds available domestically. The WWB paper, *Stemming the Tide*, showed that transformation can have an important acceleration effect on the flow of capital into an MFI in three ways: by providing greater access to commercial capital, allowing deposit mobilization as an additional source of funds, and achieving greater leverage of its capital base when borrowing funds.

Before transformation, ADOPEM funded its operation primarily with loans from organizations that carried subsidized and non-subsidized interest rates, commercial loans from local savings and loan associations, and specialized microfinance funds. After the institution transformed, the capital structure evolved and ADOPEM was able to add additional investors. Three years after inception, in 2006, Banco ADOPEM became the first Dominican institution to issue public debt in the form of subordinated bonds of approximately US\$ 10 million. The offering proved to be paramount for the recognition of a microfinance institution in the Dominican Republic. “Previously, the microfinance sector was not well understood by institutional investors; we opened the door to new ways of financing, not only for us, but for the entire sector,” explains Canalda de Beras-Goico. By issuing locally, ADOPEM expanded public awareness of the institution and its mission; it was able to access a greater pool of capital (as reflected by the size of the transaction); and it garnered praise for being a market pioneer. ADOPEM also extended debt maturities, which translated into more efficient asset-liability management and support for high-growth operations. Canalda de Beras-Goico says this allows ADOPEM to bring macro resources to microenterprises.

Banco ADOPEM’s funding base as of year end 2008 is diversified among bank loans (45 percent), financial deposits (25 percent), subordinated debt (24 percent) and time deposits (6 percent). This includes loans from commercial banks and investments from international institutions such as the European Investment Bank. This diversification would not have been possible pre-transformation and in addition to financial support also increased the ADOPEM brand and came with technical assistance.

INCREASED TRANSPARENCY AND STRONGER GOVERNANCE

Local and international capital markets investors—increasingly important sources of funding for MFIs—favor the governance, risk management and regulatory oversight features associated with RFIs. As investors see RFIs as more credit-worthy they gain access to new and more extensive sources of funding.

The transformation process also promotes an improved quality of management, governance, efficiency and sustainability, for two reasons. First, in order to obtain a license, the transforming MFI must meet the requirements of local banking authorities, including compliance with all of the appropriate management structures and board committees that are required by local regulations. Second, a new ownership structure and new board of directors often leads to increased oversight, improved management and more durable operational structures, which will ensure the long-term viability of the institutions.

The transformation process inherently leads to increased external transparency, which elicits greater trust from investors and clients. Regulated institutions are required to provide comprehensive financial and operational data to a host of supervising entities, as well as the general public. They must report on meeting liquidity requirements and adhering to diversification in risk portfolio and minimum capital

adequacy. As a deposit-taking institution, Banco ADOPEM is supervised by the Central Bank and is required to provide daily, monthly, quarterly and annual reports to the Central Bank and undergoes a mandatory credit rating. As a bank, it must publish its quarterly financial statements in a national newspaper.

Although successful NGO MFIs perform treasury and risk management, the regulator's demand for dedicated reporting and internal systems from a RFI is a challenging process. At the time of transformation, ADOPEM's organizational structure revolved around the provision of credit. Transformation typically necessitates an expansion of management capabilities and internal capabilities in certain areas that are not explicitly required for an unregulated entity, such as treasury management, internal controls, risk management and central bank reporting. With transformation,

risk management functions are fortified as MFIs are required to dedicate more focus to portfolio classification and management, loan loss provisioning, internal controls, liquidity management, asset and liability matching and information technology systems.

Transformation is also often the impetus for hiring new personnel with commercial banking skills, including specialized functions such as risk and market research managers, and finance team members with deeper technical skills than might be found at an NGO MFI. These requirements necessitate the revision of staff and management qualifications to reflect these essential skills. In order to comply with the financial regulations at the time of transformation, all members of ADOPEM's Board of Directors had to meet the eligibility requirements of a regulated institution; the Board had to be reconfigured.

The Dominican Financial Crisis: A Loss of Faith

According to the IMF, the defining moment of the Dominican financial crisis of 2003 was the failure of Baninter, the third largest private bank, in the spring of 2003. As the details unfolded it gradually became clear that Baninter had been engaged in fraud at a level never before seen in the Dominican Republic, that threatened to topple the nation's economy. According to a US Congressional report, bank officials erased more than US\$630 million from the books.

After accounting malpractices and fraud were discovered the government took over the bank. The Central Bank kept Baninter open to prevent a systemic run and financed the payout of its deposits, which fell 80 percent. Problems of accounting malpractices were also soon discovered at two other banks, Bancrédito and Banco Mercantil. Central Bank assistance to these banks contributed to a near doubling in public debt.

The Baninter scandal was a direct result of weak banking regulations that enabled bank executives to defraud depositors and the Dominican government. Agustin Carstens, Deputy Managing Director and Acting Chairman of the IMF said: "After a decade of strong growth and broad economic stability, the Dominican economy is now facing major challenges. The failure of a large bank because of fraud has hurt confidence in the banking system and, together with the adverse effects of a succession of external shocks, has weakened the economy. Output has contracted, the currency has depreciated sharply and pushed up inflation, and the historically low public debt-to-GDP ratio has nearly doubled." For ADOPEM the loss of confidence in the banking sector was unfortunate timing as it was trying to build trust with customers to encourage savings.

The fallout of the bank collapse had a silver lining in that it led to some much needed reforms in the sector, including more appropriate supervision and regulation. The Dominican economy rebounded in the following years and continued to grow until the financial crisis in 2009.

INCREASED PRODUCT OFFERINGS

In addition to other outcomes, transformation to a RFI almost always results in greater product diversification, as it improves an MFI's ability to offer a broader range of services, particularly savings products. Although many MFIs require compulsory savings as part of their loan program, in most countries NGO MFIs do not have the legal authority to mobilize voluntary deposits. MFIs that mobilize savings are less vulnerable to negative market conditions; whereby the cost of borrowing externally might increase significantly or liquidity might dry up, deposits provide a cost-effective, liquid source of funds. As well as the ability to offer savings, transformation also increases the potential for other non-credit products to be offered, including insurance, remittances, and money transfers.

Research in *Stemming the Tide* showed a compound annual growth rate (CAGR) of 45 percent in active savers for transformed institutions. This increase suggests an expansion of the client base targeting both new and existing clients with saving products. In many transformed MFIs in Africa and South Asia, the total number of active savers far exceeds the total number of active borrowers.

“The challenge for Banco ADOPEM was not to teach the poor how to save, but to offer products that fit their needs and encouraged them to save,” explains Canalda de Beras-Goico. In preparation for offering savings, WWB and ADOPEM launched a study that sought to understand the demand for products, savings trends, and reasons to save; the use of and level of satisfaction with current savings mechanisms, including formal and semi-formal systems; the attributes that savers value when they choose an institution; what ADOPEM should do to be seen as a reliable institution for savings; and ADOPEM's potential competitive advantages and disadvantages. With this knowledge, Banco ADOPEM introduced savings in 2004, opening 1,660 accounts. The bank began by offering passbook savings, programmed savings and

certificates of deposits. They marketed these products to both their current clientele and a higher-income market segment in order to build business. Many of these term deposits may be institutional investors who can get better rates than with commercial banks. ADOPEM made a decision to use these institutional and middle-income investors to help get their savings program off the ground.

From 2004 to 2005, savings deposits increased by 350 percent. However, growth of savings did not continue at this record rate, and growth decreased to 117 percent, 23 percent and -4 percent from 2006 to 2008. As of December 2008, Banco ADOPEM had over US\$10.6 million in total deposits. Part of the decrease is due to depositors becoming bond holders after the bond offering¹. However, one of ADOPEM'S key challenges—characteristic of MFIs that have transformed and tried to offer voluntary deposits—was the need for a cultural change from being a credit-led institution to being a savings and credit bank. According to Canalda de Beras-Goico this was ADOPEM's biggest challenge. In addition, transformed institutions typically invest limited resources in the marketing of savings.

Table 1: Total Deposits for Banco ADOPEM

Dominican Pesos in Thousands

Year	Savings	Term Deposits	Deposits from Banks	Total Deposits	Percent change
2005	9.836	106.465	40	156.301	
2006	23.797	300.773	70	394.57	152
2007	48.744	339.952	51.049	439.745	11
2008	73.699	304.834	6.049	384.582	-13
2009	79.841	463.058	-	542.899	41

Source: Fitch

Banco ADOPEM has been evaluating its saving product and, consistent with its mission to offer a full suite of financial

1. When Banco ADOPEM issued public debt in the form of subordinated bonds in 2006 some savings clients used their savings to buy bonds.

services to low-income women, the bank is currently engaged in a project to increase the average balance of accounts as well as the number of low-income entrepreneurs actively saving. This shift will enable ADOPEM to not only meet its mission but also manage its liquidity risk and avoid having too high a concentration of deposits in too few accounts.

INCREASED CLIENT OUTREACH AND ACCELERATED GROWTH IN TOTAL LOAN PORTFOLIO

Analysis presented in *Stemming the Tide* showed the considerable impact of transformation on accelerating the growth in an MFI's gross loan portfolio. The transformed RFI set achieved a CAGR in total gross portfolio outstanding of 29.9 percent during 2002 to 2006, versus a 16.3 percent CAGR during the same period for the non-transformed group. Given the state of the Dominican market during and immediately after transformation, ADOPEM's story does not lead to one clear conclusion. ADOPEM's growth in gross loan portfolios was extremely high in the year following transformation (285 percent) but leveled off in the following years to 72, 35 and 50 percent respectively.

Integrating marketing into the RFI to fuel growth has been a learning experience for ADOPEM. "As an NGO, you don't need to focus on marketing," says Canalda de Beras-Goico. "Once we transformed we saw how important it would be. Our competitive landscape had changed."

ADOPEM faced the challenge of expanding its brand, from being known as an institution that offers credit to low-income women entrepreneurs, to a bank that offers a larger range of products and services to a broader set of clients. ADOPEM faces this important hurdle daily: to expand their client base, while still focusing on their mission. To meet this challenge, ADOPEM uses market research to listen to their women customers and incorporating their needs and preferences into product design.

Another challenge has been incorporating the marketing function into the institution's operations. This change involves a firm institutional belief in marketing's role and in the importance of having a customer-centric approach to management. This is still a challenge today, but management recognizes the need to develop their internal marketing and branding capacity and is working towards building a stronger marketing department.

INCREASING LOAN SIZE

The findings from the analysis of average loan size in *Stemming the Tide* confirmed that transformed RFIs tend to disburse larger loans whereas NGO MFIs tend to offer smaller loans. On average, WWB found that the transformed RFIs consistently provide loans that were approximately two to three times larger than those provided by the non-transformed MFIs between 2002 and 2006. However, the difference between the average loan sizes between the two groups converges at one point, suggesting that as NGOs grow and mature—perhaps in combination with improving local economic environments—there is a tendency for their average loan sizes to increase. As gross portfolio outstanding increases and MFIs can offer a wider range of credit products, including loans of different sizes and durations, MFIs may be expanding the overall number of people with access to microfinance services, therefore prompting market expansion rather than shifting away from low-income clients. Anecdotal evidence shows that larger businesses sometimes apply for small loans, and conversely that lower-income clients may become eligible for larger loans. In conclusion, WWB found that an RFI's average loan size increases after an MFI transforms. WWB is presently conducting additional studies to assess how increasing loan size affects outreach and the client base.

It is difficult to use loan size as a proxy for serving poorer clients. Because the transformation of Banco ADOPEM happened in the midst of an economic crisis, it is hard to separate the effects of the crisis from this data. Average

Table 2: Loan Distribution

Program (Loan Size in RD)	2003			2008		
	Number of loans	Portfolio in Pesos	Percent	Number of loans	Portfolio in Pesos	Percent
Micro Loans (1,000 to 50,000)	22,364	182,880,980	66.44%	47,478	637,957,817	48.1%
Solidarity (800 to 10,000)	1,171	1,156,498	0.42%	17,187	62,030,429	4.7%
Micro Micro (10,001 to 30,000)	17,201	64,137,414	23.30%	13,943	159,399,483	12.0%
Microenterprise (50,000 to 1 million)	174	16,409,668	5.96%	7,652	423,092,101	31.9%
Consumer (1,000 to 1 million)	171	2,497,428	0.91%	249	20,855,980	1.6%
Housing	192	8,164,746	2.97%	444	19,195,849	1.4%
Agriculture				45	806,632	0.06%
	41,273	275,246,734	100.00%	86,998	1,326,276,832	100.0%
Disbursements	35,701,411				162,391,250	
Repayments	37,468,643.77				136,125,456	
% Repayment	13.61%				10.3%	
Average Loan	6,668.93				15,234	

Source: ADOPEM

loan size was stable (approximately US\$ 364) until it fell significantly in 2003, to US\$ 195, but eventually climbed back to US\$ 440 in 2008. This is consistent with the average for the Dominican Republic, US\$ 406, as reported by the MIX Market.

In 2003, group lending made up less than half of one percent of clients. Post-transformation this group increased to nearly 5 percent of the loan portfolio and is growing. The growth in group lending could signal a trend toward serving more poor women as these loans are much smaller, approximately US\$ 25 to \$275, and generally taken by women with home-based businesses. Simultaneously, however, the largest growing segment of loan type was microenterprise, which increased from 6 percent of the portfolio in 2003 to 32 percent in 2008. Again, the absolute number of women increased across all loan types.

Staying Focused On The Mission

Even the most women-centric institutions have difficulty staying focused on the mission post-transformation. In the case of ADOPEM, the absolute number of women clients increased from approximately 42,000 to more than 68,000 after transformation. However, if we use the percentage of women clients as a proxy for the MFI's focus on women, ADOPEM followed the trend of the control group of institutions analyzed in *Stemming the Tide*: the percentage of women clients dropped, in this case from 88 percent in 2004, to 77 percent four years later in 2008. ADOPEM, recognizing this trend, has responded in several ways: by choosing mission-focused funders, having the NGO provide career and business development services to low-income groups, and by continuing to modify product offerings and services to reach women not served by the traditional financial sector.

CHOOSING MISSION-FOCUSED FUNDERS

The most frequent mechanism for transformation is for the NGO to sell its loan portfolio to the newly-created bank while remaining a significant investor (often holding a monetary stake) in the RFI. When ADOPEM transformed, it had sufficient capital to meet regulatory requirements regarding capital adequacy, an important milestone to achieve prior to undertaking a transformation exercise because it meant that ADOPEM did not need to raise additional equity to operate as an RFI. During the bank's first year of operation, ADOPEM NGO was the majority owner of Banco ADOPEM along with some individuals. When the NGO bought Banco de Desarrollo del Valle, they also had to take on the failing bank's accumulated losses. In 2005 the bank paid out its final accumulated loss and for the first time had net income of RD\$ 25 million. In 2006, the bank performed well again and at that point paid out dividends. After positioning the bank as not only sustainable but also profitable, the NGO as primary owner of the bank, felt that the time was right to incorporate new shareholders who would continue to contribute to the mission.

According to Canalda de Beras-Goico one of the biggest challenges as a regulated institution is balancing mission, regulatory requirements and business goals. For ADOPEM, she says, mission will always be the most important.

Directly following transformation, ADOPEM NGO retained 88 percent ownership of the bank and set short-term goals to incorporate new shareholders. The vision was to have ADOPEM NGO retain a significant stake of the bank's equity to ensure mission focus, but to also balance the ownership base with international and local investors. The company established that the most favorable ownership structure would be: ADOPEM NGO, between 40 to 45 percent; international investors up to 30 percent and local investors, up to 25 percent. As of December 2008, the capital structure of Banco ADOPEM has evolved, with the NGO having reduced its

participation to 59 percent as new funders entered the picture, including the International Finance Corporation (IFC), which held 10 percent in 2007 and in the last quarter of 2008 increased its share to 18 percent. Local investors hold 23 percent.

According to Canalda de Beras-Goico the choice of investors was a very careful selection process. Investors had to be aligned with ADOPEM's mission and willing to put their money on it: a percentage of Banco ADOPEM's dividends are used to support the training center. Also, "Dra. Canalda will not allow investors who question the practice of providing 'less-profitable' products such as solidarity loans," she says. "Solidarity groups are one of our trademarks, the way we reach our lower-income population."

The relationship between an NGO and the RFI it creates varies in every instance of formalization. Often, an NGO operates solely as the founder and majority shareholder of the new regulated institution after transformation, with no other subsequent roles. In some cases an NGO will provide non-lending assistance to the RFI, such as training for staff and clients. However, an NGO may also carry out other activities to meet the overall social mission of both organizations.

ARTICULATING THE ROLE OF THE NGO

During transformation, ADOPEM was very cognizant of remaining mission-focused. The NGO recognized that the NGO/RFI relationship would need to be articulated in terms of financial support, technical assistance and most importantly maintaining the mission focus of the RFI. In the early stages of transformation planning, ADOPEM's leadership recognized the importance of retaining and expanding the NGO's non-lending activities to work toward the shared mission of economically empowering women. They designed the NGO expressly as a vehicle for providing non-financial services to support the mission of the bank. The NGO and the bank now have an interconnected, complementary relationship, sharing

skills, a president and four Board members.

One of the main interests of the NGO is allowing the bank's clients to continue accessing trainings and services from the NGO. The head of ADOPEM NGO said, "The women have kept the link between the NGO and bank, even after the bank was developed. The main difference is that we have nicer facilities; the essence has not changed." Therefore, the strategy of the NGO prioritizes its close relationship with and representation within the bank. It also positions itself to have an expansive customer outreach, meaning that it targets not only low-income groups, but also financial training for other groups such as managers from within the bank.

Training Institute ADOPEM, as the NGO is now known, offers training programs for the low-income sector, both bank clients and non-clients. Its goal is to "provide individuals access to formal training to allow them to develop the critical technical skills needed to participate fully in economic activity. The programs offered for institutions provide a conduit for market participants to formally train and educate their personnel in the particularities of microenterprises and microfinance." The Institute offers business management courses to help women and men expand their knowledge of business management, develop skills in starting a business and learn to run their businesses more efficiently to produce a more stable revenue stream. These courses include: accounting, sales and marketing, customer service, managing production costs and strategic planning. There are also technical courses: dressmaking, upholstery, interior decorating, repairing kitchens and bathrooms, flower arranging, beauty shop skills, and courses on personal development such as leadership, self-esteem, planning your life and managing relationships.

The NGO also provides training courses for bank staff. The Certificate of Microfinance includes a specialization in credit analysis. The Certificate of Human Resource Management teaches management skills for small to mid-size entrepreneurs.



FOCUSING ON WOMEN AS STAFF AND LEADERS

To this day, in comparison with other industries, the representation of women in leadership remains strong in microfinance. In recent years, however, microfinance providers have been strained by unprecedented rates of growth, the increasing need for skill sets from the private sector, and pressure to become more commercially motivated. There is evidence that with these changes in the industry, the percentage of women in leadership positions is beginning to decline. Even within the WWB network—the only global microfinance network expressly committed to women's

Table 3: Women's Participation and Leadership at ADOPEM

	2003	2004	2005	2006	2007	2008
Percent of portfolio held by women	83%	84%	76%	76%	76%	74%
Percent of women clients	97%	90%	79%	80%	80%	77%
Total staff	178	139	178	262	330	451
Staff who are women	93	70	77	130	157	204
Percent staff who are women	52%	50%	43%	50%	48%	45%
Total middle management	14	12	11	11	8	10
Middle management who are women	4	5	5	11	6	7
Percent of middle managers who are women	29%	42%	45%	100%	75%	70%
Total senior managers	8	14	13	13	39	45
Senior managers who are women	7	6	9	9	9	11
Percent of senior managers who are women	88%	43%	69%	69%	23%	24%
Total Board Members	16	16	8	7	7	8
Board members who are women	16	16	5	5	5	5
Percent of board members that are women	100%	100%	63%	71%	71%	63%

Source: WWB social performance reports

leadership—there has been a decline in women in board positions (from 66 to 58 percent) and in senior management (from 66 to 51 percent) from 2003 to 2007.

ADOPEM is the only bank in the Dominican Republic with a female president and a majority of women on its board. However, similar to many other institutions, ADOPEM saw a decline in the total percentage of women staff, particularly among senior management. Similar to client growth, the absolute number of women increased as the size of the total staff increased, but the percentage fell from 52 percent to 45 percent. As a percentage of senior management, representation of women fell from 88 percent to 24 percent. According to Banco ADOPEM's human resources manager, the decline in women senior managers is due to the addition of male senior auditors and senior technology managers, positions for which few female specialists were found.

Many of the women loan officers work with solidarity products, which require a simpler credit analysis. This

background leaves them without the experience and financial background to progress to senior management positions. ADOPEM is responding by offering training programs and coaching for women loan officers to groom them to become branch managers. As a result of this program, three women have become branch managers and one woman was promoted to senior management. Additionally, women in the Dominican Republic also face the gender barriers seen around the world: balancing domestic and career demands and a lack of mobility. However, says Canalda de Beras-Goico, women staff are assets to the bank because of their loyalty and decreased rates of fraud.

With regard to board positions, part of the decline was due to the reorganization of the board. As new board members are brought on ADOPEM is working hard to ensure gender diversity; for example, it successfully encouraged the IFC to appoint a woman representative. Similarly, ADOPEM is working hard to ensure that women are represented in senior management. As mentioned above, regulation post-

transformation required that they hire additional personnel including two additional vice presidents and according to Canalda de Beras-Goico, “we were fortunate to find a woman with the qualifications to serve as the vice president of finance.”

Conclusion

In July 2008, WWB conducted a series of focus groups with Banco ADOPEM clients about the transformation process. All clients felt “well served” and pleased with the bank’s new savings offerings. Nancy, a client who generally saves 10 percent of her monthly income, remarks that Banco ADOPEM “makes it easy to save and give us advice on how to manage our money.”

Post-transformation, clients still see ADOPEM as a women’s bank, albeit one that offers more services. Clients see it as an integral part of the community, one that cares about their success. One client points out that after Hurricane Noel in 2007, Banco ADOPEM helped those affected in a way that no other institution could. “It has that social touch to help those in greatest need,” she says. Another long term borrower sees it more personally:

“I am very grateful for ADOPEM because I really started several businesses from here,” she says. “Ten years ago I started with flower arrangements, decorations for weddings, and from there I started my own business. I took a course for setting up a beauty parlor with loans from ADOPEM, and I did not stop there—I opened an internet center, thanks to God and to ADOPEM.”

MFIs transform in order to grow, to increase their outreach and to improve their operations. WWB’s research has shown that transformation—undertaken by institutions that are internally prepared for the process, under favorable local regulatory and legal conditions—can have highly beneficial effects on an MFI’s sustainability as a provider of financial

services to low-income entrepreneurs. Even the most committed organizations have to be aware of the possibility of mission drift and continue to modify or introduce products and services that meet the needs of women clients. There is an opportunity for microfinance to deepen its impact on poverty and bring about significant social change by ensuring the equitable participation of women. Institutions cannot lose sight of the group that microfinance was designed to assist in the first place, the same group that has made the sector the profitable powerhouse it is today: low-income women.

Client Story: Rosalía de los Santos Evangelista

Rossy, as she is known to her friends, worked for several years in customer service and as a cashier for a large retail chain but the income was not enough to provide for her family. Together she and her husband support three children and take care of medical expenses for both of their parents. "Being an employee, working and working and the money is not enough so I decided to make my own savings and open my own business."

Rossy had a goal— she needed money to invest in her beauty salon and needed training. She took a course and learned how to work with hair as well as to do facials. Simultaneously, she started saving from the income that both she and her husband earned. An opportunity came to purchase equipment from a woman who was closing her salon. Rossy needed RD\$ 37,000. She had approximately RD\$ 8,000 saved so her mother helped her out with the rest of the funds for her initial investment. Her first loan with ADOPEM was to replace a hairdryer. "What I like about ADOPEM is the trust that the staff has with me," she says.



Rossy manages her own business and makes all decisions regarding investments on the business and use of the funds. She works every day of the week including Sundays. Because she does not own a generator, the hours that the salon is open depends on whether there is electricity. Her weekly clientele is mainly from the neighborhood but she also has clients who come every two weeks from other neighborhoods.

She uses her income to take care of the family; when someone falls ill monthly expenses increase considerably. Recently her father had a stroke and although he has some income, she helps him out to cover some of the expenses. Rossy's husband is employed as a driver of heavy equipment and when there is not sufficient work in the company, he rents a car and works as a taxi driver to make additional income.

Rossy has her savings at ADOPEM, primarily because she feels comfortable there. "The lady near the coffee would tell me, 'when you are going to save? You can come and I will fill out the form and you only sign it.' No other bank does that."

Rossy has many plans for the future including training as a sales representative and saving for a car so she can sell beauty products from one of her current providers. She also plans to build her own house.

Client Story: Angela María Cruzeta Marte



Angela María Cruzeta Marte has been an ADOPEM client since 1997, when she took her first loan to finance her dressmaking business. A friend told her: "Do you want to make something of yourself? Get a loan from el banco de la mujer (the woman's bank)." Angela, believing they would not loan to her because she did not have any assets, accepted a visit by the loan officer anyway. "When he came he said 'Doña Angela, and what are we going to put as a guarantee because you don't have anything?' and I responded, 'I guarantee you with my word that I will comply.' Well, he started making notes and they gave me RD\$4,000."

Angela invested that loan and shortly thereafter started her business. She paid her first loan very quickly, and got a second loan for RD\$ 8,000 and a third loan for RD\$ 20,000. The business was booming, the number of clients was rapidly increasing and she felt she needed help so her husband left his

job in 1998 and started working with her. She now supplies dresses to more than 23 stores in Santo Domingo. By 2007, ten years after her first loan, Angela was taking a RD\$ 200,000 loan.

Angela is the manager of the business; she buys the raw materials, manages the employees and delivers the merchandise, and does the bookkeeping. Her husband does the finishing of the dresses and supervises production when she is out of the factory. There are a total of 18 people working in the factory and everyone has a salary including her; her husband and her sister.

In Angela's eyes, ADOPEM has significantly grown since she started borrowing from them. "I started when it was a small bank, and now it is a very large bank," she says. Now as a regulated financial institution ADOPEM also offers savings and Angela has the impression that the interest rates were lowered once it became a bank. When asked how she would describe ADOPEM to someone who does not know the institution she says: "It is a good bank, it helped me grow, and those who borrow from there grow fast." Because she is a long-time client, she can withdraw the loan funds the day after the loan officers's visit which gives her great satisfaction.

Angela is saving until she reaches her goal of RD\$ 500,000 for a down payment on a house. Before beginning her business she lived with her husband in a very small room; now she wants to buy a house that will be large enough to also house her business. "I want to finish paying this loan so they can give me a half a million pesos to expand the business."

Angela started sewing when she was 13 and feels that it was her calling. "I always wanted to be someone in life, a person of talent, a woman of success of triumph."

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About WWB

The mission of the Women's World Banking global network is to expand the economic assets, participation and power of low-income women and their households by helping them access financial services, knowledge and markets.

WWB is a global network of 40 microfinance providers and banks, working in 28 countries to bring financial services and information to low-income entrepreneurs. The network serves 24 million microentrepreneurs. WWB's advisors and technical experts work hand in hand with our network members to provide a range of ongoing, carefully designed technical and advisory services and to actively promote the exchange of best practices.

About ADOPEM

Banco ADOPEM's mission is to promote the development of Dominican families by incorporating them into the formal economic and financial system, within a framework of ethical values, seeking to benefit society in general. Banco ADOPEM has been a member of the Women's World Banking network since 1982.

About Citi Foundation

Citi is a pre-eminent global financial services company that has had an indelible impact on the microfinance sector, in particular through two investment vehicles, Citi Microfinance and the Citi Foundation. Citi Microfinance develops commercial relationships with microfinance institutions (MFIs), networks and investors to expand access to financial services for the unbanked and underbanked. Working together with Citi's businesses, it provides MFIs with credit, savings, insurance and remittance products, corporate finance and capital markets solutions, and risk assessment framework for the industry. The Citi Foundation is committed to the economic empowerment of individuals and families, particularly those in need. Over the last decade, the Citi Foundation has granted more than \$60 million in support of 250 microfinance programs and organizations across 55 countries.

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