

CASE STUDY

2017



Promoting green credits as a financial inclusion strategy in rural areas of the Dominican Republic



Case study of the pilot project “Promoting green credits as a financial inclusion strategy in rural areas of the Dominican Republic” carried out by the Savings and Credit Bank ADOPEM S.A., an institution affiliated to the Dominican Network of Microfinance Institutions REDOMIF, within the framework of the regional project program of the Central American and Caribbean Network of Microfinance (REDCAMIF) and ADA Luxembourg, aiming at the promotion of financial inclusion by means of innovation in the financial product implementation.



1. INTRODUCTION

ADA Luxembourg (www.ada-microfinance.org) in alliance with the Central American and Caribbean Network of Microfinance (REDCAMIF), developed a five year project to accelerate financial inclusion in the Central American region and the Dominican Republic through three specific work areas: i) Professionalization of the industry, II) Sustainability of the national networks and the development of services, and the; III) Development of inclusive and innovating financial products, incorporating the implementation of innovative financial products in the areas of rural finances and progressive social housing in 33 affiliated Microfinance Institutions, distributed evenly among the 7 countries.

In the case of Rural Finance, the ADA - REDCAMIF alliance allowed for the development of four financial products for the rural sector additionally offering “positive externalities for the environment”. The products that were developed are: i) Line of credit for environmental productivity; II) Financing for renewable energies; III) Rural financial leasing and; IV) Financing for rural enterprising women. In the case of progressive social housing it was sought to expand financial services addressing the improvement in the quality of life of families. This VSB program has identified seven products that have the peculiarity of being progressive in the sense that they offer investment options starting from basic repair activities, improvements and construction, up to more complex schemes of house construction. The identified products are: I) Progressive improvement of houses; II) Whole improvement of houses; III) Purchase of land and legalization; IV) House construction; V) House purchasing; VI) Credit for the introduction of communitarian services in rural areas and; VII) Programed savings for housing.

2. INITIAL CONTEXT

The agricultural sector in the Dominican Republic has considerable social and economic importance. 2.6 million hectares are devoted to agricultural production, of which 54% goes to agricultural activities and 1.2 million to pastures. About 243,000 Dominicans depend directly on agriculture. The sector employs 14.4% of the country's active population and contributes about 23.7% of exports. It is estimated that 36% of the Dominican population resides in rural areas. 56% of rural households are poor and 17% are extremely poor.

Despite the strategic importance of the agricultural sector, it has suffered financial, physical, natural and human capital losses in recent decades. The factors that have weakened Dominican agricultural production capacity are linked to the low profitability of crops and livestock products, falling real prices and rising costs. Small rural enterprises fail to generate sufficient economies of scale to absorb transport and storage costs, making it difficult to collect the volumes needed to satisfy a wider market addressed to local communities.

Access to finance is a factor that affects agricultural productivity. However, the latter is essential to maintaining the competitiveness of productive units in the sector, because of their dependence on biological cycles that lengthen the recovery period of productive capital, the intensive use of capital and high investment requirements, and the family nature of farms. The agricultural sector represents less than 5% of the country's credit portfolio. Private banking focuses mainly on loans for the pledge of agricultural products, while its contribution to agricultural production activities is practically nil.

In this context, ADOPEM Bank decided to participate in the project «Expansion of inclusive finance in Central America and the Dominican Republic» implemented by ADA in Luxembourg and REDCAMIF, with the aim of broadening its participation as a credit provider in the agricultural sector and expanding their coverage in rural areas, with new locally adapted financial products, including «green financial products».

ADOPEM, S.A. savings and credit bank is a financial institution oriented towards the micro, small and medium enterprises market. It started its activity in 2004 and has continued its growth in accordance with the regulations and standards established in the Dominican Republic. ADOPEM focuses mainly on segments of the population with little access to traditional credit, as well as micro-entrepreneurs, through programmes and projects with a strong socio-economic impact for vulnerable sectors. Since 2012, ADOPEM is part of the group of institutions of the BBVA Microfinance Foundation, which has strengthened this institutional part and its processes.

3. DESCRIPTION OF THE PROJECT IMPLEMENTATION WITHIN THE MFI

The project implemented by ADOPEM entitled «Promoting green credits as a strategy for financial inclusion in rural areas of the Dominican Republic», is part of a broader strategy to expand ADOPEM's financial and non-financial services (called Agrocrédit ADOPEM). The objective of the financial product implementation is to provide vulnerable rural populations with microfinance products and services that enable them to invest in activities that have an impact on ecosystem sustainability, income enhancement and resilience to the effects of climate change.

Within this framework, ADOPEM has developed two financial products: the first, ECO CREDITO ADOPEM, operates as a productive environmental credit. It is intended for farmers who wish to acquire agricultural equipment that uses good practices that contribute to respect for the environment. The second, called ECO LÍNEA CRÉDITO ADOPEM, operates as a credit line. It is intended for agricultural businesses that use good agricultural processing practices that contribute to respect for the environment. The products were offered in the branches Barranca and Jarabacoa (province of La Vega), Salcedo (Mirabal sisters), San Juan and Azua.



The target group was agricultural producers willing to implement actions for the environmental sustainability of their agricultural production. The original target was 375 funded clients. However, by the end of the pilot phase, 391 had finally been reached, for an amount of 354 000 USD. The average loan amount was USD 905.5 and 614.19 hectares were financed through 28 products.

Both products were oriented towards small and medium agricultural producers, in the sense that they represent the most important economic activity in the rural areas of the project implementation areas. To this end, production activities were supported with the following objectives:

- to reduce pressure on ecosystems and the services they provide;
- to increase the social or economic resilience of rural populations vulnerable to climate change;
- to reduce the risks associated with events;
- through its implementation, to protect, restore or use biodiversity and ecosystems in a sustainable manner;
- to contribute to the achievement of positive impacts on the economy of populations in the short term.

In addition to the number of clients reached, other quantitative data should be highlighted: a PAR 30 of less than 3% and training in financial education and technical assistance provided to 518 producers. In addition, according to a customer satisfaction survey, 96.7% of customers were satisfied with the products offered.



At institutional level, 20 loan officers were trained on the two products offered.

4. MAIN CHANGES IN THE MFI SINCE THE PROJECT IMPLEMENTATION

The introduction of rural financial products has made it possible to place ADOPEM as a pioneer institution in green financing and the promotion of rural finance, since other financial institutions operating in the country do not market this type of products in a targeted manner.

The objective of the credit product is to support activities that contribute to the sustainability of the production system, through technical measures that promote respect for the environment. Among the main measures implemented are the financing of organic banana production (certified and exportable), as well as the financing of items produced with good water resource management (through drip or spray irrigation systems). The environmental impact of these measures is based on the area covered and the impacts avoided. In this sense, and considering that these are small plots (1.25 Ha on average), having an impact on nearly 10,734 tasks (over 671 Ha) in just under 10 months is already very positive.

The financing of certified organic small banana plantations is distinguished by its percentage of participation, which represents nearly 30% of the actions supported. Vegetables with drip irrigation systems also stand out, as do plantations of tree species with organic management.

Internally, although Banco ADOPEM's training model is highly recognized for its quality at the national and international levels, it stands out in the implementation of the project by its integrity and articulation. Thus, the training had two approaches: on the one hand, training in financial education in rural areas, for which workshops were organized in the different modules: budget and investment, agricultural credit and over-indebtedness, savings and presentation of Banco ADOPEM products, agricultural inventory and agricultural accounting registration system.

On the other hand, training to strengthen productive capacities and the implementation of environmental practices on farms, through the formalization of two agreements, with the aim of providing beneficiaries with technical training on subjects such as: investment in technologies related to improving the efficiency of resource management, ensuring the quality of equipment and materials to be used, incorporating sustainable production technologies (IPM, soil management, etc.).

These alliances have been concluded with the La Vega Fruit and Vegetable Cluster and the Dominican Institute for Agricultural and Forestry Research (IDIAF). These agreements helped to strengthen the project to achieve the expected results and ensure the continuity of activities established within the farms.

5. FACTORS CONTRIBUTING TO THE SUCCESSFUL IMPLEMENTATION OF THE PROJECT

From the institutional point of view: ADOPEM Bank and its management have shown a keen interest in promoting the project, which has enabled them to broaden their participation as credit providers in the agricultural sector, with new financial products adapted to these areas. The implementation of the project, because of its innovative aspect, involved a greater learning curve, structuring alliances with local organisations and companies, paying particular attention to customer expectations, involving green financial products and incorporating the value chain into management and field staff. Banco ADOPEM has been a pioneer in the implementation of the project: it is the only regulated institution with an environmental financing program in the Dominican Republic.

Having a technical staff specialized and dynamic in the agricultural sector has accelerated the process of design, monitoring and implementation of the financial product, the process of technical assistance and the implementation of environmental practices.

From the client's perspective, the project has resulted in a differentiated financial product that supports their livelihoods, both socio-economic and environmental. The combination of funding and technical support has promoted environmental awareness and perception, thus facilitating the implementation of climate change adaptation and mitigation measures within rural development units. The project has also generated job creation and contributed to improved incomes.

Training in financial education and ad hoc technical assistance made it possible: on the one hand, to generate a better knowledge of production and management of the company's resources; on the other hand, to build customer loyalty by demonstrating an active presence of the Bank in its production processes, while reducing uncertainty in the face of the risk of non-payment.

6. OBSTACLES ENCOUNTERED DURING THE IMPLEMENTATION OF THE PROJECT

The barriers to implementation of the product were as follows:

- Lack of regulatory history within the organization (superintendence of banks), particularly in the design of products with «green» characteristics, involving constant meetings with regulators to expose the functionality of the product. Another obstacle was the authorization of trade names of products and the time required for approval by the National Industrial Property Office (ONAPI): in both cases, there was a waiting time equivalent to the superintendence of banks, involving several meetings to explain and raise awareness.

- In practice, Banco ADOPEM had an initial implementation period of seven months for the pilot project, eventually extended to 12 months, which allowed for better adjustment of financial products, the technical assistance model and partnerships with local service providers and producer organisations.

The product placement process was very slow at the beginning, especially in the most promising implementation areas (San Juan). Ownership of the product by field staff and uncertainty among potential customers about the product's characteristics also slowed the process. However, the combination of improved training with product adjustments including the «Free Payments» and «Past Due» options has accelerated these investments.

7. ROLE OF THE NATIONAL NETWORK AND REDCAMIF

REDCAMIF support was essential for project formulation, business plan development support, implementation timelines and budgets, as well as monitoring and support for the achievement of objectives.





8. RECOMMENDATIONS FOR OTHER ACTORS WISHING TO REPLICATE THIS SUCCESS STORY

Identify and seek flexible funds for the massification of green financial products to other promising geographical areas.

Since staff have knowledge of rural socio-economic dynamics and environmental issues, in this type of innovation it is not enough to have staff with expertise in credit and financial matters. On the contrary, it is important to consider collaborators who are fully familiar with agricultural products, rural markets, rural families' flows and investments and their investment needs.

In innovations of this type, it is important to take into account the time frames established in the project design, such as the identification of environmental practices, the approval of financial products by the country's regulators, the structuring of alliances with technical assistance service providers, and the time needed for field staff and clients to take ownership of the product.



Banco ADOPEM among the best sustainable initiatives in Latin America!



With its range of products called «FRA - Finanzas Rurales y Ambiente (Rural Finance and Environment)», ADOPEM ranks 234th among the TOP 500 of the best sustainable initiatives within the framework of the «Premios Latinoamérica Verde 2018» Prize supported by the UNPD (United Nations Development Programmes), out of a total of 2,733 applications received.

It is also among the top 10 in the «Sustainable Finance» category.



Thank you to those who participated in this case study:



Since 1994, ADA has been working hard to develop the provision of microfinance to populations excluded from the conventional banking circuits. Its action is designed to reinforce both the autonomy and capacities of microfinance institutions (MFIs), professional associations and networks. ADA also assists governments in their efforts to support and structure the microfinance sector at the regional and national level.

With this aim in mind, ADA can propose and develop specific and innovative microfinance products which have a positive impact on the life of thousands of people, to organise education and training for microfinance professionals working in, and on behalf of, the South, as well as provide advice and support to MFIs in their search for funding. Furthermore, ADA has taken the decision to be involved in research with a view to anticipating the future needs of the world of microfinance and to gauge the social impact of its actions. Its flexible approach enables it to adapt each project according to the needs of our partners and the realities in the field.

ADA enjoys the High Patronage of HRH the Grand Duchess of Luxembourg.



REDCAMIF is a private, non-profit, apolitical, non-religious entity composed of associations and institutions specialized in microfinance in the Central American and Caribbean Isthmus. As a network, REDCAMIF seeks to strengthen the microfinance industry in the region through union representation, institutional strengthening, network sustainability and the generation of strategic alliances, with qualified and ethically committed human resources, in order to contribute, through its programmes, to improving the quality of life of low-income families.

REDCAMIF brings together the national networks of seven countries (Guatemala, Honduras, Dominican Republic, El Salvador, Nicaragua, Costa Rica and Panama) which, at the end of 2017, had 141 MFIs serving more than 1.8 million micro-entrepreneurs, 59% of them women.



With the objective of being the representative voice of the MicroFinance sector in the Dominican Republic, on November 19, 2008, the non-profit association Red Dominicana de MicroFinanzas-REDOMIF was formally constituted, bringing together banks, cooperatives, non-profit institutions and other strategic partners. Its focus has been on establishing the strengthening of its membership as well as the links between it and the other actors in the national and international life of this sector.

It is currently made up of 31 member institutions that serve more than 700,000 low-income people through a joint portfolio equivalent to some 28 billion pesos, making it the representative body of the main microfinance market in Central America and the Caribbean.



Banco de Ahorro y Crédito Adopem, S.A. is a financial institution oriented to promote Responsible Productive Finance in the Dominican Republic. It started its operations in 2004 as a bank, although it has been granting loans for almost three decades as an NGO. Since 2012, he has been a member of the BBVA Microfinance Foundation's group of institutions.

ADOPEM Bank is committed to society, the most disadvantaged classes and small-scale entrepreneurship, adopting a set of programmes and projects of great socioeconomic impact, in the form of activities and field work, in areas and sectors that are vulnerable and difficult to access.
