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U.S. Influence through Microfinance: The Dominican Republic

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Introduction

> *Situated in the heart of San Pedro de Macorís, a municipality in the Dominican Republic, Milán Tapia welcomes nearly 500 students into her small school building to begin the day's lessons. An inspiration to all who meet her, Milán founded the school in 1998 after receiving a small loan from Microfinance DR, a non-profit agency that frees children and their families from poverty through initiatives that generate income. Having been born into a poor family, Milán explains how, like most people in the Dominican Republic, she spent the majority of her young life working in a low-end factory job and struggling to fight her way out of poverty. After using her small loan from Microfinance DR to begin a seamstress business, Milán had a vision. Every day the children from her village left their homes with weapons they made out of rocks and metal to spend their time re-enacting the violence they had witnessed during their childhoods. She soon realized what she would do with the money she received from her small business; "I will teach the children"* (Microfinance DR, 2009, p. 8).

Receiving the opportunity to establish a business and benefit her community, Milán Tapia's experience demonstrates the positive impact of international policies and Non-Governmental Organizations (NGOs) on the economic environment of the Dominican Republic. While economic success stories, such as Milán's, are common throughout the Caribbean, only recently has the Dominican Republic, a nation historically ravaged by brutal military rule, social inequality, uninvited U.S. influence, and guerrilla warfare, witnessed a growth in economic stability. Traditionally, like many nation-states in the Caribbean basin, the Dominican Republic's people have had little access to financial institutions that offer economic security to the community. Furthermore, while international policies and NGOs have sought to stimulate economic and social growth throughout the Caribbean regions, only recently have local banks and methods of secure saving been introduced to the Dominican Republic (Abbey, 2008, p. 373).

Today, although the country's economy has become one of the fastest growing in the Caribbean region, deficiency rates within the Dominican Republic remain high with over 30% of its citizens living below the poverty line (USAID, 2002, para. 3). While disagreement exists over the true source of disparity among Dominican Republic citizens, certain indicators and influential variables have been identified. According to a report released by the United States

Agency for International Development (USAID), factors affecting poverty in the Dominican Republic include the large portion of people who have been excluded from recent economic growth, the uncertainty of the democratic and political institutions, the country's continued abuse of human rights, the reality of conflict among social and governmental spheres, a large social investment gap in relation to education and social services, a lack of civilian security, and the inability to provide the necessary tools to incorporate the country into the global marketplace. Furthermore, such things as "a growing population, increased economic activity, competition for resources, inadequate environmental protection, and [the reality of] natural disasters," have placed a significant burden on resources and areas of society that traditionally employ the Dominican poor (USAID, para. 5).

In response to the financial and economic instability of the Dominican Republic, external governments have created solutions and implemented programs to help stimulate the country's economic growth. One method of economic stimulation that has been applied to the Dominican Republic and various developing countries throughout the past 30 years is that of Microfinance through the creation and incorporation of Microfinance Institutions, or MFIs. Formed for the purpose of introducing the country's marginalized to a system of savings and loans, the practice of microfinance strives to lift recipients out of the bondages of poverty through the instruction of business practices and the provision of small loans (Greer & Smith, 2009, p. 100). Recognizing microfinance as a solution to extreme poverty and disparity within under-developed nations, the United States has significantly influenced the Dominican Republic through the implementation of government policies and NGOs that support the economic initiatives and proposals of MFIs.

Although the United States government continues to play a large role in supplying international aid in the forms of monetary and instructional resources and seeking to combat the unstable economic infrastructure found throughout the Dominican Republic, comprehensive data on United

States participation in microfinance remains scarce as many MFIs are developed and implemented by NGOs which measure and track their own performance. Also, the majority of the intended effects of microfinance, including increasing social and human capital, education levels, and the standard of living, are incessantly difficult to measure, let alone organize. Furthermore, because the Dominican Republic and surrounding Caribbean nations have unique cultural, social, and demographic factors, great controversy exists as to whether successful and sustainable microfinance practices are feasible in the Caribbean countries. For these reasons, it becomes necessary to determine whether reports on the recent economic success in the Dominican Republic can be attributed to microfinance or whether documented reports reflect an exaggeration of actual circumstances.

Through the process of incorporating past research on U.S.-based microeconomic development through governmental policies and NGOs on the Dominican Republic economy, this exploratory project will identify that microfinance institutions effectively empower the marginalized and create sustainable business opportunities to loan recipients within the Caribbean region. Analyzing historical and contemporary influences of the United States on the Caribbean economy and identifying a recent evolution of the nations' compatibility, this project will distinguish the impact of the United States as an external provider on the Dominican Republic economy. Furthermore, having the opportunity to access internal data from Microfinance DR, a MFI providing microfinance products to clients throughout the Dominican Republic, this project will identify the impact of gender and determine the relationship between MFI profitability, portfolio quality, and sustainability, and the economic indicators of Growth Domestic Product and the Gini Index of income distribution. Lastly, recognizing that inconsistencies exist in determining the influence of microfinance within the Caribbean, this project will provide prescriptive recommendations for more effective U.S. influence throughout the Dominican Republic.

Literature Review

As formal credit and savings institutions for the poor have existed throughout the world for the past 300 years, a discussion on the origin and evolution of MFIs will provide an introduction to the institutions' significance in contemporary economic development practices. Also, through identifying the intended clientele of microfinance initiatives, the foundation for determining how best to address the needs of the community and narrow the scope of research will be laid. Furthermore, through critically analyzing the strengths and weaknesses of MFIs, one is able to determine if microfinance initiatives adequately address the problem of economic poverty or whether a more effective solution could be implemented in its place.

History of Microfinance

History records Jonathan Swift as having established the first credit institution in Ireland during the 1700's. Entitled the Irish Loan Fund System, this early credit institution provided small loans to Ireland's rural poor (Global Envision, 2006, para. 2). However, according to Global Envision, an organization promoting the confluence of global markets and poverty alleviation, until the 1970s, credit and savings institutions solely addressed the needs of the agricultural sector through raising productivity and income (para. 8). It was not until 1976 that Muhammed Yunus, founder of Grameen Bank, a Bangladeshi institution that has now loaned nearly $7 billion and is 94 percent owned by its borrowers, introduced the world to the concept of microenterprise and the process of investing in micro-businesses (Prior & Argandoña, 2009, p. 349).

While microfinance and micro-business practices have re-shaped the mission and general organization of international policy and NGOs, a 2006 report by Shon R. Hiatt and Warner P. Woodworth entitled, *Alleviating Poverty through Microfinance: Village Banking Outcomes in Central America*, explains that microenterprise lending programs did not receive immediate acceptance in the academic or governmental realms. In fact, according to Hiatt and Woodworth:

> *Initially, large multilateral organizations such as the World Bank, the World Trade Organization (WTO), and the African Development Bank all rejected this movement as of little consequence—too little money, given to poor families who are unemployable, and who are not credit worthy. Instead, these institutions favored large-scale, top-down methods in which the loans were given to governments and large corporations* (p. 472)

It was discovered soon afterwards that the top-down approach failed to deliver the intended results, and organizations such as the World Bank have since been motivated through village banking initiatives to invest over one billion dollars in NGOs for the purpose of implementing MFIs (Hiatt & Woodworth, p. 472).

Furthermore, since the official establishment of microfinance thirty-four years ago, the world has witnessed an incredible growth in the number and variation of microfinance institutions (MFIs). According to research conducted in 2002 by Daniel C. Hardy, Paul Holden, and Vassili Prokopenko for the International Monetary Fund, in 2000 an estimated 12.5 million individuals were receiving aid from MFIs (Hardy, Holden, & Prokopenko, p. 3). Created with the purpose of filling "a gap left by (larger) conventional, commercial or government-sponsored institutions in the provision of financial services to poorer households and smaller enterprises," microfinance institutions have been used to supplement other methods of microeconomic development in under-developed and developing countries (Hardy, Holden, & Prokopenko, p. 3). While MFI growth has been supported by domestic NGOs, foreign NGOs, multilateral development banks, and national governments also provide funding and programming to support MFI development (Hardy, Holden, & Prokopenko, p. 3).

Microfinance: Intended Population

According to the International Monetary Fund, “The primary clientele of MFIs consists [of individuals] who face severe barriers to access financial products from conventional financial institutions” (Hardy, Holden, & Prokopenko, p. 5). For example, a microfinance institution’s clientele may live in a remote location where enforcement of property rights is uncertain and secure banking methods are non-existent. Depending on the region in which the MFI is located, the clientele population may be primarily male or female (Hardy, Holden, & Prokopenko, p. 5). In the Dominican Republic, the clientele basis is predominantly female; a fact that reflects a region heavily affected by war. For example, according to a study conducted by Andrea L Findley for Grameen Foundation USA in 2002, out of the 61,500 clients served throughout the Dominican Republic, 71% are women (Findley, p. 28). Recognizing the gender distribution of a country is significant as many MFI establishments are customized to meet the needs of the specific demographic to which they belong.

While the majority of microfinance recipients in the Dominican Republic are women, this phenomenon has not arrived without cause. Encountering high levels of unemployment, domestic violence, and, in rural areas, inequality towards healthcare, education, and the ability to receive bank loans, Dominican women have historically been classified and treated as second-class citizens (Cheston & Kuhn, 2009). As illustrated by a 2009 USAID report, “the average wage for women was 87% of the average wage for men. Women have lower wages than men across all sectors [and] this difference exists in spite of the higher average educational achievement for women than men" (Lambert, p. 17). Indicating a steep economic disadvantage towards women, these statistics emphasize the need for opportunities for a large sector of the Dominican population.

Fortunately, recent years have seen progress towards women's rights and equality. For example, as reported by the United Nation's in 2004, Dominican women remain influential in the family realm as polygamy is not common and parental responsibilities are divided equally between men and women. Furthermore, the reformation of women's inheritance laws have ensured that women now have the full ability to inherit land, and thus, gain economic security. Regrettably, such progress has been overshadowed by the reality that 30% of Dominican households are lead by single-mothers emphasizing that a "Dominican woman's role as caregiver is equally as important as [her] ability to financially provide for and economically support a household" (Lambert, p. 15). Therefore, while influential strides have been made to ensure equal rights for Dominican women, inequalities run rampant and females living within the Dominican Republic remain most susceptible to economic hardships, and thus, are more inclined to be recipients of microfinance.

Location also has a significant influence in determining the intended population of a microfinance institution, as well as, in determining the microfinance services that the MFI will need to provide to assist those populations. According to the 2003 Dominican Census, of the 8,744,907 individuals living in the Dominican Republic, 59.3% lived in urban areas (U.S. Library of Congress, 2009, para. 1). However, while over half of the Dominican's population resides in urban settings, historically, high unemployment rates have largely affected urban areas throughout the Dominican Republic. For example, according to the U.S. Library of Congress, in the 1980s, 48% of workers classified as self-employed and 85% of temporary workers living in

Santo Domingo and Santiago, the two largest cities within the Dominican Republic, were underemployed (U.S. Library of Congress, para. 1). Furthermore, as illustrated by a survey conducted throughout five Dominican neighborhoods in the 1970s, nearly 60% of households had no source of regular employment (U.S. Library of Congress, para. 1). These figures emphasize that individuals maintaining constant employment were among the few and privileged members of Dominican society.

Possessing the cultural belief that neighbors should assist one another throughout difficult times, urban Dominican families have historically maintained strong connections with their relatives and friends living in the rural countryside. As explained by the U.S. Library of Congress, “Aid and assistance flowed both ways. Farmers with relatives in the city stayed with them on trips to town and repaid this hospitality with foodstuffs from their fields” (U.S. Library of Congress, para. 3). However, as is the case with most sectors of society, the poor faced greater obstacles in these exchanges as they had fewer relatives who had the ability to provide assistance (U.S. Library of Congress, para. 2).

Although urban areas have been the epicenter of economic hardships throughout Dominican history, today, rural areas represent home for the country’s most destitute. Recognizing that Dominican society is highly stratified with the wealthiest 10% of the population possessing 37.8% of the capital and the poorest 10% possessing 1.7%, upward social mobility is rare (Encyclopedia of the Nations, 2000, para. 2). As the poor maintain professions as factory laborers and agrarian farmers, “the poorest areas of the country are to be found both in Santo Domingo, where shantytowns sprawl around the edges of the city, and in remote rural areas” (Encyclopedia of the Nations, para. 2). As a result of the differences between rural and urban populations living today within the Dominican Republic, microfinance institutions have been encouraged to create products and implement practices to best meet the needs of the intended population.

Microfinance Institutions: Strengths and Weaknesses

According to research conducted by the International Monetary Fund (IMF) in 2002, several arguments exist to identify the strengths and weaknesses of an MFI. Explaining that MFIs empower the poor, provide substantive resources to those in need, allow clients to make important economic decisions, and provide a sustainable economic solution, the IMF argues that MFIs positively influence microfinance customers and the surrounding communities. However, recognizing that MFIs may also fail to best allocate donor funds, operate sustainably, and remain structurally stable, the IMF also identifies MFI weaknesses that have the ability to undermine local community growth efforts. Certainly, recognition of these arguments is essential in determining if MFIs warrant the attention and funding of NGOs and public policy initiatives and in deciding how assistance could be administered most effectively (Hardy, Holden, & Prokopenko, p. 10).

The first fundamental argument in support of MFIs includes the provision of financial training and services that empower microfinance clients and protect communities from becoming aid-dependent. “Clients who have access to financial services gain autonomy” thereby allowing MFIs to “mitigate the powerlessness that is often an intrinsic feature of poverty” (Hardy, Holden, & Prokopenko, p. 10). Providing financial training to clients is significant in that it allows clients to accept responsibility for their economic circumstances and provides communities with the opportunity to gain independence from external lenders.

A second argument in support of MFIs claims that provisions afforded to disadvantaged groups may be leveraged through the mobilization of savings and the support of capital markets.

This mobilization would allow “the total provision of resources to the poor [to be] increased” and, as a result, the impact of microfinance to reach more individuals (Hardy, Holden, & Prokopenko, p. 10). Also, in addition to an increase in borrowers, an increase in mobilization would allow a consistent flow of funds to travel through the MFI providing the organization to gain sustainability and trust as an institution.

A third argument in support of MFIs involves the concept that, unlike external organizations that administer aid from overseas, “an MFI has an informational advantage, which allows assistance to be particularly well targeted” (Hardy, Holden, & Prokopenko, p. 10). Because the operation mechanisms of rural area microfinance are often determined and lead by local villagers, clients are able to allocate funds more effectively and make important economic decisions for themselves and the community. According to the IMF, “In effect, the MFIs enjoy better local knowledge and proximity, which help ensure that funds go to the *deserving poor* [italics added]” (Hardy, Holden, & Prokopenko, p. 10). Possessing a cultural advantage, local MFIs understand what is important to clients and are better able to advocate for needs specific to the region.

A final strength of microfinance institutions is, as MFIs provide assistance to clientele through loans and not through handouts, resources are returned and organizations are able to designate the funds to new projects. Generating sustainability, MFIs are able “to cover operating costs plus achieve a reasonable return on capital” (Hardy, Holden, & Prokopenko, p. 10). As an MFI’s ability to gain sustainability through the lending and return rates of money often determines the effectiveness and lifespan of the institution, the return on resources ensures that services to trusting clients can be continued and more individuals have the opportunity to receive loans. As previously identified, while several strengths exist to encourage the creation and implementation of microfinance institutions within underdeveloped and developing countries, the International Monetary Fund has also identified three weaknesses that, depending on the environment, may effectively reduce the benefits of MFIs.

A first argument presented by the International Monetary Fund in opposition to MFIs involves the reality that, instead of funding microfinance loans, donor funds could be applied directly to communities. This observation is significant in that direct income support could possibly provide greater assistance to the community's poorest, a group that researchers have argued, are often overlooked within microfinance practices as a result of an MFIs desire to find a stable and reliable client basis. Typically, clients experiencing less extreme poverty have better credit histories and are therefore seen as more likely to repay loans within an allotted time period. Also, the IMF explains that "training to provide the poor with human capital might offer a less uncertain return," and as the majority of the poor already face an uncertain existence, this solution may seem more appealing (Hardy, Holden, & Prokopenko, p. 11). Furthermore, "a lending MFI may lead many of the poor to jeopardize what little assets they have, with a high probability of losing everything and some probability of making a substantial return" (Hardy, Holden, & Prokopenko, p. 11). Therefore, although the purpose of microfinance is to provide an effective means of poverty alleviation to those in most need, misallocated microfinance resources could further victimize struggling clients.

In addition to posing a threat to the poorest sector of society, a second argument in opposition to microfinance institutions is, due to the reliance on external donor funding, MFIs have the tendency to become aid-dependent and unsustainable apart from large donations from wealthy supporters. From past experience, the IMF recognizes that aid-dependant and unsustainable MFIs are likely to misallocate resources, operate inefficiently, prevent growth within the institution, and remain structurally unstable (Hardy, Holden, & Prokopenko, p. 11). Relating to the first weakness, unsustainable MFIs jeopardize the communities they intend to help through adopting poor development practices of their own.

Finally, the IMF argues that donor-supported MFIs have the potential to “crowd out commercially oriented providers of financial services” (Hardy, Holden, & Prokopenko, p. 11). Having to rely steadily on aid, MFIs “stifle the longer-term development of a more sophisticated, commercial financial sector” (Hardy, Holden, & Prokopenko, p. 11). In the end, communities that experience the “crowding-out” phenomenon fail to rely on local financial networks, thereby undermining local growth efforts (Hardy, Holden, & Prokopenko, p. 11). Certainly, through identifying the strengths and weaknesses of MFI-influence in developing regions, the importance of evaluating a community’s population, needs, and stage of development before implementing a structure of microfinance, is realized.

History of U.S. – Caribbean Relations

For centuries, events, cultural trends, and migration practices have connected the 35 million people of the Caribbean with the 250 million people of the United States. Originally colonized by European powers, the countries of the Caribbean, like the United States, had to fight for their independence. Today, the North American states and the Caribbean countries remain inextricably linked as thousands of Caribbean immigrants work within U.S. cities and millions of United State citizens are of Caribbean descent (Deere, 1990, p. 1). However, the relationship between the regions fails to be equal. As depicted through Nelcia Robinson, chairperson of the Caribbean Policy Development Centre (CPDC) and author of *Poetry is Feeling*, more often than not, the decisions of the United States, good and bad, ultimately affect the Caribbean:

My Caribbean
What month
were you born
beautiful child
of the sun
cradling a friendly sea
crowded by land masses
whose motherhood
makes you jump and sing
Or whose shadows
Cause you to crawl (Deere, p. 1)

Reflecting Nelcia Robinson's poem, history records the United States' influence on the Caribbean as beneficial in certain aspects and over-shadowing in others. In order to understand the United States' current involvement in MFI initiatives within the Dominican Republic, it becomes necessary to recognize that the United States' original intent and understanding towards development in Latin America has shifted drastically since the start of the nations' relationship nearly two centuries ago.

United States –Dominican Republic relations date back to 1821 when the Dominican Republic, declaring independence from Spain, requested official diplomatic recognition from the United States. However, what may have been a premonition of future Dominican Republic – U.S. relations, the United States refused to award the Dominican Republic diplomatic recognition due to the region's predominant composition of black and mulatto ex-slaves. Exemplifying the United States' strong influence over the Dominican Republic, this refusal resulted in the Dominican Republic remaining under oppressive Haitian control until 1844 and contributed to the region's instable economic environment (Brewer, 2006, p. 66).

Two decades later, unable to manage the effects of political corruption and economic downturn, the Dominican Republic relinquished its independence from Spain and asked the European country to take the region back as a colony. Willing to oblige the Dominicans and eager to gain territory in the process, Spain accepted the request but failed to accomplish the reacquisition before the end of the U.S. Civil War in 1865. As a result, recognizing that Spain would soon gain full control over the territory, the U.S. Congress officially recognized the Dominican Republic as a diplomatic country in 1866 strictly for the purpose of protecting U.S. interests in the region's natural resources (Brewer, p. 66).

Although the U.S. government provided the Dominican Republic with official country status, American public officials continued to debate whether the U.S. should legally incorporate the country. Annexation, supporters argued, would provide the United States with unlimited access to agricultural resources and sugar cultivation. However, arguing that Latin American countries "represented an alien culture that could not be molded into a tropical Anglo-Saxon outpost," the U.S. Congress determined that "neither the Dominican Republic nor any other Latin American territory would be suitable for annexation into the United States" (Brewer, p. 67). Through determining that the benefits of incorporating the Dominican Republic under United States jurisdiction would be outweighed by the costs of cultural intrusion, the U.S. government provided the Caribbean with an indication of what was to come.

The Roosevelt Corollary

On September 14, 1901, Theodore Roosevelt became President, introducing a new style of U.S. diplomacy towards European and Latin American nations. Advocating "big stick" relations, Roosevelt drastically redefined the purposes of the Monroe Doctrine, a document that prohibited further efforts by European governments to colonize land or interfere with states in the Americas (Brewer, p. 89). As 1904 came to a close, the Dominican Republic, possessing $30 million of debt, acknowledged that the country was no longer able to continue loan payments to several foreign lender nations. Unwilling to lose Caribbean countries to European powers, Roosevelt set his plan into immediate action and implemented new U.S. policy declaring:

> *The Monroe Doctrine should be the cardinal feature of the foreign policy of all the nations of the two Americas, as it is of the United States. . . . The Monroe Doctrine is a declaration that there must be no territorial aggrandizement by any non-American power at the expense of any American power on American soil. . . . Through the Monroe Doctrine we hope to be able to safeguard . . . independence and secure . . . permanence for the lesser among the New World nations.* (Brewer, p. 89)

Referred to as the Roosevelt Corollary, these early sentiments indicate President Roosevelt's intentions to project the United States as a father figure protecting Latin America and the Caribbean basin from the evil guises of the old world. "The Monroe Doctrine, which had signified hands-off Europe for nearly 100 years, was now also becoming the authority for a hands-on approach by the United States" (Brewer, p. 89). Therefore, through the façade of safeguarding independence for the developing nations of Latin America, the Monroe Doctrine strengthened the United States grasp on their struggling neighbors.

Recognizing the danger posed by Roosevelt's "big stick" attitude, Latin Americans grew to resent U.S. influences. Roosevelt, however, refusing to back down, explained that a miscommunication had occurred in regards to U.S. purposes towards Latin America and the Caribbean and urged his fellow countrymen "to convince all the other nations of this continent once and for all that no just and orderly Government has anything to fear from us" (Brewer, p. 91). In fact, the Roosevelt campaigns were so successful that public opinion polls from the time period reflect the attitudes of American citizens as believing Roosevelt's initiatives to be beneficial and necessary to the under-developed regions and peoples of Latin America (Brewer, p. 91).

This initiative was significant in that, for the next 30 years, the Monroe Doctrine, alongside the Roosevelt Corollary, provided an excuse for the United States to intervene "politically, economically, and militarily in Latin American affairs *wherever* and *whenever* it was deemed vital to the safety and security of the United States" (Brewer, p. 90). Nearly three decades of "unimpeded U.S. military intrusions and incursions in the affairs of Latin American nations" ensued, including two invasions in the Dominican Republic. The United States used every opportunity to heighten the presence of military personnel and operatives throughout the southern hemisphere (Brewer, p. 90). In the end, President Roosevelt established a standard between U.S. and Caribbean relations that would not be overturned until Franklin D. Roosevelt introduced the Good Neighbor Policy in 1933 (Brewer, p. 91).

The Good Neighbor Policy

Further exemplifying the United States' strong influence on the Caribbean, the theoretical framework of the Good Neighbor Policy was constructed in 1928 when President Herbert C. Hoover and the U.S. government recognized the need to change existing policies directed at Latin America and the Caribbean. Having served as the Secretary of Commerce prior to his presidency, Hoover believed that international good-neighborliness was the solution and "that economic resolutions [between the U.S. and Latin America] would, in the long run, be more financially profitable for the United States, and would be perceived as less aggressive by the Latin Americans." (Brewer, p. 103). However, as a result of the stock market crash of 1929, these changes would not be realized until 1933 when Franklin Delano Roosevelt gained control of the presidency. Introducing the Good Neighbor Policy as a solution to unwarranted U.S. intervention in Latin American affairs, FDR states:

> *In the field of world policy, I would dedicate this nation to the policy of the good neighbor—the neighbor who resolutely respects himself and, because he does so, respects the rights of others—the neighbor who respects his obligations and respects the sanctity of his agreement in and with a world of neighbors.* (Brewer, p. 103)

While Latin American nations remained cynical about the intended goals of the Good Neighbor Policy, FDR followed through with his initiatives, signaling a new era of Caribbean – U.S. relations (Brewer, p. 104).

As a result of the Good Neighbor Policy, attitudes within the Dominican Republic towards the U.S. shifted drastically. For example, when the U.S. was attacked by the Japanese at the Pearl Harbor naval base on December 7, 1941, eight nations in Central America and the Caribbean, including the Dominican Republic, joined the U.S. Congress in declaring war on Japan. Furthermore, in response to German and Italian hostilities towards the United States on December 11, 1941, the Dominican Republic, alongside seven Caribbean nations, declared war on the two European nations.

Stewart Brewer, author of *Borders and Bridges: A History of U.S. – Latin American Relations* (2006), provides three viable reasons for the Caribbean's drastic shift in attitudes towards the United States. First, as the Caribbean and Central American nations neighbored U.S. borders, the United States' government built stronger economic ties with the Caribbean than with other Latin American areas. Secondly, because President Roosevelt had remained true to the Good Neighbor Policy, removing U.S. troops stationed throughout Latin America, the people of Central America had every reason to support the U.S. in their time of need. Lastly, recognizing that the size and military strength of most Central American and Caribbean nations offered the people little defense against the forceful countries overseas, the nations became allies of the United States to ensure protection from larger enemies (Brewer, p. 109).

While the Dominican Republic supported the United States in their efforts throughout World War II, the period of compatibility and good neighborliness between the nations ended abruptly when President Lyndon B. Johnson sent 20,000 troops to Dominican soil in 1965 with the purpose of intervening in the nation's civil war. Recognizing the severity of the situation in the Dominican Republic, the United States determined military intervention was the only reasonable method to ensure that the country did not fall under Socialist rule. Initially sending 405 Marines into the Dominican Republic, a number that would eventually reach 23,000, Johnson destroyed the trust that Roosevelt and his Good Neighbor Policy had worked so diligently to establish and peace was not restored until the election of Joaquín Balaguer, a man in support of strong U.S. – Latin American relations, in June of 1966 (Brewer, p. 132).

Evolution of Compatibility

As evidenced through the passages of history, the United States' relations with the Dominican Republic have historically been one-sided. However, since 1966, the U.S. government's introduction of the Caribbean Basin Initiative (CBI) and support for the Central America Free Trade Agreement (CAFTA), have demonstrated a possible shift in objectives from fulfilling U.S. goals to determining ways in which best to meet community needs and aid in regional development within Latin America.

According to the Office of the United States Trade Representative, the Caribbean Basin Initiative was initially launched in 1983 by President Ronald Reagan through the Caribbean Basin Economic Recovery Act (CBERA). Hoping to provide aid to nations in Central America and the Caribbean, the United States Trade Representative explains that the CBI facilitated "the economic development and export diversification of the Caribbean Basin economies" while providing "duty-free access to the U.S. market for most goods" (2009). Although the CBI eliminated tariffs on most Caribbean exports, the CBI's impact on the Dominican Republic economy remains controversial.

The questionable impact of the CBI on the Dominican Republic is emphasized by an article distributed by The Heritage Foundation in 1986, stating that, while the U.S. allowed a distortion of sugar prices within the market prior to the CBI, the implementation of CBI heightened the problem through initiating a reduction in U.S. sugar imports. Since sugar is the number one export in the Dominican Republic, the CBI's reduction in U.S. sugar imports forced several sugar mills into closure, resulting in a skyrocketing of unemployment rates within the Dominican Republic and Caribbean. Furthermore, while the CBI argues that the restrictions placed on sugar and other monoculture products have promoted agricultural diversification throughout the Caribbean, many desperate farmers resorted to cultivating drug crops, such as marijuana, as an alternative income (Hudgins, 1986, para. 3).

A second initiative of the United States, created for the purpose of aiding economic development in the Dominican Republic and Caribbean, is the Central America-Dominican Republic-United States Free Trade Agreement, or CAFTA-DR. Established on July 27, 2005, by President George W. Bush, CAFTA-DR was approved by the United States House of Representatives in a 217-215 vote (U.S. Committee on Ways and Means, 2005, para. 4). Through opening a "new era in trade" between the United States and its Caribbean neighbors, CAFTA-DR has removed significant tariffs and trade barriers between the U.S. and the countries of Central America and has also contributed to the highly-anticipated implementation of the Free

Trade Area of the Americas (FTAA) (Brewer, p. 157). CAFTA-DR has opened the Caribbean to manufactured goods, services, and farm products from the U.S. and has ensured that nearly 80 percent of Central American and Dominican Republic exports enter the U.S. market duty-free (U.S. Committee on Ways and Means, 2005, para. 4).

Since the implementation of CAFTA-DR in 2005, reviews on the initiative's impact have been mixed. According to a 2007 report entitled, "DR-CAFTA Year Two: Trends and Impacts," the Dominican Republic and neighboring countries have been negatively affected by CAFTA-DR (Latin American Solidarity Foundation, p. 11). Publishing that the trade initiative has resulted in higher unemployment rates as sugar-mills become privatized, the report emphasizes that a greater dependency on the import sector and the loss of food sovereignty and political-legislative sovereignty has caused many within the Dominican Republic to question CAFTA-DR's intentions.

Furthermore, the 2007 report states that, as a result of CAFTA-DR, "neither tourism nor the Free Trade Zones can fully compensate for the displacement of the labor force out of the vital and necessarily strategic national agricultural sector" (Latin American Solidarity Foundation, p. 48). While CAFTA-DR promised to promote agrarian reform and support agriculture efforts in rural areas, the proposal was abandoned as the entrance of imported products was increased, thus destroying local efforts of production. Reemphasizing the legislation's failure within the Dominican Republic, rural leader Martín Nivar Piña explains that "poverty is destroying the countryside" and 78% of the rural population lack basic amenities (Latin American Solidarity Foundation, p. 49). Without a decrease in imported products, it can be predicted that individuals living within rural areas of the Dominican Republic will continue to face extreme shortages.

Therefore, while the CBI and CAFTA have encouraged certain advancements in U.S. – Caribbean relations, research shows that these initiatives favor U.S. policy goals thereby furthering the economic imbalance between Central America and the United States. As argued by author Carmen Diana Deere, “These policies were designed to benefit U.S. capital rather than the people of the [Caribbean] region or the average U.S. citizen. . . . The overall effect has been to integrate the Caribbean more closely to U.S. markets, improve the U.S. trade balance, and enhance the profitability of U.S. multinationals and finance capital” (p. 225). Truly, if the U.S. policy initiatives are unable to meet the needs of both the United States and Central America and continue to place one global partner in jeopardy as a result of the other, the initiatives will fail and the growth towards diplomatic international relations will be stunted.

While controversy remains as to whether CAFTA or CBI have, in fact, benefited Central American economies, recent U.S. policy initiatives and the growing influence of NGOs demonstrate a further evolution in the United States’ objectives towards development and highlight the American public’s willingness to support social improvement and foundational change in Central America through microfinance efforts. According to the authors of *In the Shadows of the Sun* (1990), “The standard of living of U.S. citizens is inextricably linked to those of citizens in the Caribbean, and [individuals have realized] that promoting sustainable and participatory Caribbean development is very much in our shared interest” (Deere, p. 225). Certainly, through identifying the inextricable link between the United States and the Caribbean, the U.S. can best assess how to provide beneficial aid to their southern neighbors.

Recognizing that the United States has conventionally supported microfinance efforts and the creation of MFIs within the Caribbean through two mechanisms, the implementation of governmental policy and the support of non-governmental organizations, it becomes beneficial to study the two mechanisms individually. Through identifying how governmental policy and NGOs have each contributed to the United States' shift in perspectives and goals towards Central America and the evolution of the nations' compatibility in regards to microfinance efforts, it will become evident that the United States' efforts better meet the needs of Central America.

Government Policy

An example of how United States' government policy has supported microfinance efforts, and thus positively influenced development objectives towards Central America, is demonstrated through the commitment of USAID to microeconomic development throughout the past 25 years. Considering itself "the leading bilateral donor promoting a strategy critical for both poverty reduction and economic growth," USAID supports microfinance efforts in the Caribbean in four ways (USAID: Budget, 2006, para. 1). Through providing a more detailed look at USAID's involvement in the Caribbean through the initiation of Single-Purpose projects, Umbrella Projects, Microfinance-only Umbrella Projects, the United Nations' Millennium Development Goals, and President Obama's "Microfinance Growth Fund for the Western Hemisphere" policy initiative, recent U.S. efforts to encourage international diplomacy with the Caribbean will be recognized.

A first way through which USAID supports microfinance efforts in the Caribbean involves Single-Purpose projects, or those initiatives that involve funding a single microfinance institution or network with fewer obligations. In addition to supporting Single-Purpose projects, USAID promotes microfinance through Umbrella Projects with Microfinance Components, or larger initiatives with multiple purposes which introduce microfinance as a necessary component. An example of this type of project could include support for health, civil society building, and economic opportunities where concepts of microfinance are utilized in one or two branches.

Furthermore, Microfinance-only Umbrella Projects, or "large microfinance funding projects that may support efforts on multiple levels, ranging from the individual MFI or network basis, to nation-wide support for microfinance as an industry," have the support of USAID (USAID: Budget, para. 2). These projects are likely to work at all three levels of the financial system, including microeconomics, mesoeconomics, and macroeconomics, in countries with little or no regulation or coordination of MFIs. Microfinance-only Umbrella Projects help implement best practices and sustainability methods in regions throughout Central America (USAID: Budget, para. 2).

A fourth area demonstrating USAID's dedication to microfinance in Central America can be seen through the organization's commitment to the United Nations' Millennium Development Goals initiated in 2000. The Millennium Development Goals, or MDGs, initiative promotes eight international development objectives that seek to eradicate extreme poverty, hunger and gender inequalities; reduce child mortality rates, the prevalence of HIV/AIDS, and malaria; and achieve universal primary education, environmental sustainability, and a global partnership for development by 2015 (USAID: Global Partnerships, 2008, para. 1). Supported by 192 United Nations member states and 23 international organizations, a 2007 report conducted by USAID demonstrates that although MDGs have made noteworthy progress, they have failed to produce uniform results throughout all developing countries (USAID: Global Partnerships, para. 1). While further work is needed and it seems unlikely that all eight goals proposed by MDGs will be accomplished in the Dominican Republic by 2015, a report issued by Colombia University records that poverty levels within the Dominican Republic have been reduced since the initiation of MDGs in 2000 (Suki & Vial, 2003, p. 9). Furthermore, The Institute for Financial Management and Research believes the majority of this success can be attributed to the growing influence of microfinance throughout developing nations (Littlefield, Murduch, & Hashemi, 2003, para. 2).

In addition to USAID's contribution in shaping U.S. development policy, President Obama released the "Microfinance Growth Fund for the Western Hemisphere" policy initiative on April 18, 2009, proposing $100 million be spent in support of U.S. microfinance efforts. Presented as a partnership of the Multilateral Investment Fund (MIF) at the Inter-American Development Bank (IDB), the U.S. Overseas Private Investment Corporation (OPIC), and the Inter-American Investment Corporation (IIC), the Microfinance Growth Fund is the result of a rapid response taken by the U.S. Treasury Department to the instability currently ailing Western Hemispheric economies (Office of the Press Secretary, 2009, para. 4). President Obama recognizes that, although numerous microfinance institutions currently exist, "the global credit crisis is having a significant and harmful impact on the availability of finance for micro and small businesses that provide a majority of the jobs in the Hemisphere," and thus "the fund will provide stable medium and longer-term sources of finance to microfinance institutions and microfinance investment vehicles to help rebuild their capacity to lend during this difficult period and to increase the supply of finance for micro and small businesses as recovery takes hold" (Office of the Press Secretary, para. 2). Through the impact of the Microfinance Growth Fund, MFIs can continue operating in economically difficult areas.

Recognizing that regional MFIs may face a shortage of funds up to US $750 million this year, the Obama Administration has identified that the main investment objective of the Microfinance Growth Fund will be to administer senior and subordinated medium and long term loans to credit-worthy MFIs including those institutions that play an active role but have limited international credit access (Office of the Press Secretary, para. 2). Currently, the main targets of the Microfinance Growth Fund are MFIs and microfinance investment vehicles (MVIs) that provide aid and funding to micro and small enterprises in Latin America and the Caribbean (LAC) (Office of the Press Secretary, para. 5).

Demonstrating a shift in U.S. objectives towards development, a news report issued by Julianna Goldman and Kim Chipman details a recent summit meeting held in Trinidad and Tobago to discuss U.S.-Latin American issues including the Microfinance Growth Fund. According to the report, after an afternoon session involving 34 U.S. and Latin American leaders, Lawrence Summers, President Obama's chief economic advisor, acknowledged that throughout the session, there was a "recognition that in many ways Latin America was a victim of a storm that had started outside of its borders." There existed a "recognition of the gravity of the situation [and] gratitude [from Latin American leaders] for what they perceived as a very different American sensibility than they had been engaged with earlier" (Goldman & Chipman, 2009, para. 2). Through acknowledging the reality of unstable economic circumstances in Latin America and the Caribbean, the United States begins to shift its vision from governmental policies that promote self-interests to policies that seek the best solutions for all nations.

Non-Governmental Organizations

Described as a "modern phenomenon" by James A. Paul, Executive Director of Global Policy Forum, non-governmental organizations (NGOs) innovatively identify ways to meet community needs, promote new policies, and defend the rights and interests of marginalized groups (Paul, 2000, para. 1). Distinguished from those agencies directly affiliated with a government, NGOs can operate internationally; however, the majority of NGO activity has taken place in a single country within a purely local setting. Throughout the past century, NGO growth has been significant and today, over 25,000 organizations have gained NGO status. While NGOs are similar to non-profit organizations, a distinction between the two organizations should be made. Although non-profit organizations focus on the provision of services such as implementing better practices in universities and hospitals, NGOs provide services through engaging in advocacy missions (Paul, para. 5).

As NGOs become increasingly influential around the globe, arguments have been made that the diverse nature of NGOs has fragmented and weakened political action efforts. According to James A. Paul (2000), "Often, there are many competing NGOs in the same policy field and their mutual contest for influence can undercut political effectiveness" (2000). To combat this threat to political action, many NGOs have chosen to partner with one another, maintaining close interactions and serving as an umbrella organization for several humanitarian associations throughout the United States. Furthermore, the majority of governments place significant controls on NGOs, such as financial oversight, and require NGOs to pass through a lengthy review process. As a result, "NGOs are not often accused of corruption, breaches of the law, gross failure to live up to their mandate or other serious abuses" (Paul, para. 14). Therefore, NGOs are often successful institutions through which to establish microfinance services.

Reflecting the world-wide trend, the influence of NGOs has spread throughout the Caribbean, creating support for underrepresented populations and causes. Amsale Maryan, chairperson of the Association of Development Agencies (ADA), an umbrella group of 13 NGOs in Jamaica, describes how "right throughout the Caribbean, NGOs are making a difference" (Miller, 2003). However, while the majority of Central Americans welcome the political and social change accompanied by NGO development, Dionne Jackson Miller (2003), author of "Commonwealth: Caribbean NGOs Want Real Influence," acknowledges that problems associated with NGOs in the Caribbean do exist. For example, Miller mentions that, throughout the smaller islands of the

Caribbean, NGOs "have used their organizations as a front for political . . . work;" thereby destroying "the credibility of the organization" (para. 3). Also, governmental resources allocated to NGOs remain scarce and NGOs have been prevented from providing the most effective support to local communities. Furthermore, NGOs attempt to address too many needs thereby spreading their influence on society broadly but not deeply. Truly, in order for significant economic development to take place in the Caribbean, NGOs need to receive additional resources, develop a specific function, and avoid political corruption at all costs (Miller, para. 4).

Most significantly, U.S.-sponsored NGOs that operate within and external to the Caribbean continue to play a significant role in the creation and maintenance of MFIs. The Microfinance Rating and Assessment Fund, an organization that promotes transparency, availability, and quality in regards to reports on microfinance, states that, within the Dominican Republic specifically, several NGOs have contributed to the existence of sustainable MFIs currently influencing economic development throughout the Dominican community (Microfinance Rating and Assessment Fund, 2009, para. 1). A first Dominican microfinance institution, The Dominican Development Foundation, or La Fundación Dominicana de Desarrollo (FDD), is a non-governmental organization founded by the United States in 1984 "to improve the lives of Dominicans in the United States and in the Dominican Republic by expanding their access to health and education." The FDD "supports programs that promote self-help," and discourages approaches that view the poor as weak or powerless (The Dominican Development Foundation, 2009, "Who are we?").

In addition to FDD, the Dominican Republic has two NGOs that sponsor MFIs at the local level. The first, the Dominican Association for Empowerment of Women, or La Asociación Dominicana Para el Desarrollo de la Mujer (ADOPEM), was founded in 1982 by a private, local initiative with the purpose of achieving “the integration of women and their households into the formal market and [providing] them with access to financial service” (ADOPEM, 2009, “About Us”). Lastly, FONDESA, or El Fondo Para el Desarrollo, developed in 1983, promotes “the development of the micro-enterprise sector by giving loans and technical assistance to improve the administrative management capacity of micro-entrepreneurs” and works with micro-entrepreneurs in rural and urban areas (Lopez, 2008, “About Us”). Through the creation and support of NGOs in Central America and the Dominican Republic, the United States has furthered economic stability within the nations’ poorest regions and has brought awareness of the benefits of microeconomic development to the American public.

The Current Controversy

As the relationship between the United States and the Caribbean has evolved, the regions’ respect for one another has undoubtedly grown and the United States’ efforts through microfinance have become a key proponent to economic development throughout Central America. However, while the United States has made significant progress in its attempt to provide economic strength and stability to struggling Caribbean nations, a current controversy exists within the academic world as to whether U.S. microfinance and poverty alleviation efforts have been sufficiently effective.

According to Jonathan G. Lashley (2002), author of “Microfinance and Poverty Alleviation in the Caribbean: A Strategic Overview,” recent reports have identified that while the application of microfinance practices has been overwhelmingly successful in Latin America, microfinance within the Caribbean, “has lost its way” (p. 84). As can be expected, such discoveries have lead organizational heads, such as Alvaro R. Ramirez, Chief of the Micro, Small and Medium Enterprise Division at the Inter-American Development Bank in Washington, D.C., to wonder, "What is the reason for [the] lack of activity in the Caribbean?" (Westley, 2005, Foreword). Through identifying factors contributing to microfinance inconsistencies within the Caribbean and determining the importance of measuring microfinance performance from an effectiveness standpoint, the true influence of U.S.-based microfinance and poverty alleviation efforts on the Caribbean, and more specifically, within the Dominican Republic, will be determined.

The Case of Effectiveness vs. Efficiency

In order to provide sufficient analysis as to whether the influence of microfinance within the Dominican Republic has been positive, it is first necessary to distinguish between a microfinance institution's measurements of effectiveness and efficiency. Historically, units of efficiency and effectiveness have been measured qualitatively. According to a 1938 analysis of efficiency and effectiveness conducted by Chester I. Barnard, "Effectiveness [is] defined in terms of organizational goal attainment and efficiency in terms of satisfaction and cooperation of organizational participants" (Rushing, 1974, p. 474). However, as research methods improve and methods of gathering qualitative data become readily available, approaches to measuring an organization's success must also evolve. Today, the microfinance world studies various measurements of both efficiency and effectiveness when determining the health and impact of an MFI in a developing country (GDRC, para. 3).

While historically, effectiveness and efficiency have been defined in terms of organizational goal attainment and participant satisfaction, from a microfinance perspective, theorists and developers have defined these terms differently. According to the article, "Assessing the Efficiency and Outreach of Micro-Finance Schemes," effectiveness is "the ability of the service provider to design and deliver financial products and services that meet the needs and requirements of the target client system" (Chua & Llanto, 1996, p. 4) Characteristics that define whether a product provides ease of access to credit include, loan size, reasonability of cost, processing time, and collateral requirements (Chua & Llanto, p. 4). An effectiveness-approach to microfinance argues that a MFI must correspond with the lifestyle of the people and respect the region's community. Therefore, the quality of the MFI is more important than ensuring that the institution is established right away. In comparison, efficiency has been defined as "the ability to maximize output per unit of input," or, "the ratio of staff to clients, staff to loan amounts, and costs per unit of output such as number and amount of loans released" (Chua & Llanto, p. 4). An efficiency approach to microfinance argues that the creation and implementation of many, possibly less-successful, microfinance institutions is preferred to the alternative of neglecting a region altogether.

Although together, measurements of effectiveness and efficiency provide a well-rounded view of a MFI's performance in a community, a report released by the International Labour Organization in 2007 entitled, "Microfinance and Public Policy: Outreach, Performance and Efficiency," identifies that a MFI's financial performance does not always coincide with efficiency. For example, "a lack of local competitors may mean a financially self-sustaining MFI may not necessarily be run efficiently" (Balkenhol, 2007, para. 4). Also, it is possible that "an MFI may operate efficiently but fail to fully break even—not because of poor management, but contextual factors in the local market that keep staff and capital costs at comparatively high levels" (Balkenhol, para. 4). As a result, distinguishing between the two units of measurement is essential. For the purpose of this study, the success of microfinance institutions and influence of U.S. public policies will be defined from the effectiveness-perspective.

Factors Influencing the Effectiveness of Microfinance in the Caribbean

A lack of contextual appreciation, a lack of an explicit mission, the inability for the poorest clients to receive aid through microfinance, the inability for stakeholders to define the term "successful microfinance," and the existence of high measurements of loan delinquency contribute to the controversy surrounding the success of microfinance in the Caribbean. A first factor, introduced by author Jonathan G. Lashley (2002), suggests that the lack of successful MFI activity in the Caribbean has been the result of the United States and other microfinance contributors' lack of contextual appreciation towards cultural, social, and economic circumstances within the Caribbean. Lashley promotes that influences such as a misunderstanding of poverty, a high level of government intervention, a poor repayment culture, an increase in development within the financial sector, and a lack of social capital, contribute to an inadequate provision of microfinance services in the Caribbean (p. 85).

In addition to a lack of contextual appreciation towards circumstances affecting the provision of microfinance in the Caribbean, Lashley argues that "governments, MFIs, and especially donors in the Caribbean appear to lack an explicit mission for microfinance" (p. 86). While organizations agree that the term "microfinance" refers to the process of lending small amounts of money to promote sustainable economic development and lift individuals out of poverty, stakeholders and Caribbean MFIs have a limited understanding of poverty. As illustrated by Lashley, "Poverty is more than just lack of funds; it also relates to vulnerability, defenselessness, and dependency" (p. 86). Through gaining a holistic perception of microfinance, Caribbean MFIs can ensure that the economic and physical needs of individuals on the lowest rungs of the poverty-ladder are addressed.

A third factor influencing the effectiveness of microfinance in the Caribbean involves the reality that MFIs are more apt to accept credit-worthy clients as loan recipients than loan applicants with poor credit histories. As a result, very few microfinance institutions are concentrating on the poorest of the poor and poverty-stricken individuals "are suffering as they are crowded out by credit-worthy clients that see these 'cheap' loans as a means to further their own fortunes" (Lashley, p. 88). In addition, the Grameen Foundation USA, an organization providing the poorest regions in the world with the ability to escape poverty through micro-loans, reported that while NGOs within the Dominican Republic have offices in 23 of the country's 30 provinces, "most of the service is concentrated in urban areas" (Findley, Executive Summary). Therefore, the poorest sector of the Dominican Republic economy, the agrarian community, has limited access to MFIs and development opportunities.

The inability of stakeholders to define the term "successful microfinance" accounts for a fourth factor. According to Lashley, Caribbean MFIs promote three distinct goals for microfinance; self-sufficiency, poverty-prevention, and poverty-alleviation (p. 93). However, "unless governments, donors, and microfinance providers can explicitly and strategically define the mission of microfinance, the microfinance movement in the Caribbean will continue to flounder" (Lashley, p. 93). Truly, until MFIs can stand united under a common purpose, inconsistencies in microfinance applications and problems with poverty alleviation efforts will continue to flourish.

Lastly, as emphasized by George W. Westley (2005), author of "Microfinance in the Caribbean: How to go Further", the shortcomings of microfinance in the Caribbean have largely been affected by high measurements of loan delinquency encountered by developing MFIs (Westley, p. 6). Termed the number one killer of MFIs, loan delinquency is a fifth factor affecting microfinance institutions at all levels and, according to Westley, “is often a leading cause of MFI decapitalization and insolvency” (p. 6). Loan delinquency, or the inability to provide due payment on a loan, refers to the reality that many MFIs never recover a high percentage of the monies lent. MFIs that are unable to maintain low delinquency rates face numerous problems including the inability to pay institution and operating costs and a decrease in organization sustainability (Westley, p. 6).

Additionally, the most detrimental aspect of loan delinquency is the MFI’s ability to undermine client-staff relations. “When delinquency is high, MFI staff can spend a great deal of their time in very negative interactions with clients, instead of in roles that foster the idea that the MFI is an institution that supports its clients” (Westley, p. 6). Furthermore, high loan delinquency rates and poor client-staff relations encourage additional clients to stop loan payments. As clients witness community members neglecting loan repayments, they feel less accountable to their own repayment plan (Westley, p. 6). Overall, loan delinquency within the microfinance sector is extremely harmful and should be avoided in order to promote MFI stability and expansion.

Recognizing the significance of measuring microfinance efforts from an effectiveness standpoint, several factors contribute to the controversy surrounding the success of microfinance in the Caribbean. While Caribbean MFIs continue to encounter substantial obstacles as they work towards establishing the most-effective microfinance practices, the majority of organizations support the belief that microfinance, when administered effectively, remains the most beneficial poverty-alleviation mechanism; empowering the marginalized and creating sustainable business opportunities to loan recipients. Furthermore, while organizations recognize the need for significant change in microfinance practices throughout the Caribbean, and specifically within the Dominican Republic, microfinance practices continue to be encouraged and organizations rarely suggest that MFI programming should be removed from a region. For example, after conducting an in-depth study of the Dominican Republic in 2002, the Grameen Foundation USA concluded that, while problems with microfinance remain, “the need for microfinance is great throughout the Dominican Republic; it is widespread and largely unmet” (Findley, Executive Summary). Through presenting a summary of previously established literature, microfinance effectiveness in the Caribbean can be further conceptualized.

Summary of Literature

In summary, through the construction of governmental initiatives and non-governmental organizations focused on administering microfinance practices within the Caribbean, the United States has significantly influenced the economic environment of the Dominican Republic. As evidenced by the discussion on the history of the involvement of the United States in Caribbean affairs, as relations between the two nations evolve, the U.S. must learn to recognize that, although U.S.-based microfinance initiatives promoting economic development and stability are both necessary and influential, the contextual factors and specific economic needs of countries receiving microfinance initiatives may demand local MFIs to take greater responsibility of their organization and refuse to rely on the United States and other external governments to provide solutions. As demonstrated by Westley’s study, the U.S. may not always administer microfinance most effectively and therefore, must remove itself as a "father-figure," encouraging Caribbean MFIs to take full responsibility of their local organizations.

Furthermore, although controversy exists as to whether U.S. microfinance efforts within the Caribbean have been as effective as U.S. microfinance efforts in other countries, previously conducted research emphasizes the positive correlation between microfinance initiatives and the ability for Caribbean individuals, struggling to provide economically for themselves and their communities, to achieve skills, economic independence, and the opportunity to create a sustainable business that contributes to the stability of the individual as well as to the surrounding community. Recognizing that weaknesses such as the United States' failure to provide economic aid to the most destitute and the lack of an explicit mission for microfinance in the Caribbean exist and that microfinance practices are not always as effective as originally intended, several recommendations have been prescribed to encourage the United States to re-direct microfinance practices in order to produce initiatives that best meet the needs of Caribbean communities. Through such things as providing affordable technical assistance, better defining "poverty", and developing an understanding of characteristics specific to Caribbean MFI clientele, the United States can further influence the Dominican Republic while nurturing international ties that have been historically strained by intrusive and self-seeking U.S. policies.

Truly, through identifying the influence of U.S.-based microeconomic development on the Dominican Republic economy, it becomes evident that microfinance institutions are an effective means to empowering the marginalized and creating sustainable business opportunities to loan recipients throughout the Caribbean region. However, in order to provide the most effective influence to the Caribbean, the United States must recall the vision of President Franklin Delano Roosevelt and act as "the neighbor who resolutely respects himself and, because he does so, respects the rights of others—the neighbor who respects his obligations and respects the sanctity of his agreement in and with a world of neighbors" (Brewer, p. 103). The literature emphasizes the idea that only when the United States maintains the ability to successfully identify the unique needs and contextual factors of the Caribbean communities, will the influence of microfinance most effectively contribute to the alleviation of extreme poverty in the Caribbean. Through conducting an extensive study on the influence of microfinance practices within the Dominican Republic through the influence of a U.S. non-governmental organization and a local MFI, the effectiveness of microfinance can be measured and analyzed to determine the level of impact in Dominican communities.

Hypotheses

Through recognition of past literature on microfinance and the influence of the United States' use of microfinance to combat poverty in the Dominican Republic, the following four hypotheses concerning the relationship between the independent variables of Gender, Profitability, Portfolio Quality, and Sustainability, and the dependent variable of microfinance effectiveness will be proposed.

1.) Women living in the Dominican Republic have been viewed as second-class citizens in society and microfinance efforts provide an effective means of poverty alleviation to the poorest sector of society. Therefore, microfinance has a larger impact on Dominican women than Dominican men.

2.) Defined as the ability for an MFI to generate net income on a consistent basis, profitability implies that if an MFI is doing well financially, the loan clients have been able to follow through with the loan repayments and grow their small businesses. Therefore, when the financial profitability of an MFI increases, the effectiveness of microfinance increases.

3.) Successful microfinance institutions rely on the repayment of client loans and a strong portfolio quality. Therefore, when clients fail to repay loans in the time allotted, and, as a result, an MFI experiences an increase in measurements of Portfolio At Risk, the effectiveness of an MFI decreases.

4.) Recognized as the ability of a MFI to continue functioning while providing service to its customers or clients, sustainability is reached when a program's external grants, loans, and internal revenues cover program expenses over the long term. Therefore, microfinance institutions with higher levels of sustainability will be more effective in delivering products and services to their clientele.

Data and Methodology

In order to test the hypotheses, the data to be used includes the dependent variable of microfinance effectiveness in the Dominican Republic and the independent variables of gender, profitability, portfolio quality, and sustainability. Furthermore, the data representing the three independent variables was organized by Microfinance USA, a Christian faith-based, 501(c)(3) non-profit organization focused on alleviating physical and spiritual poverty through microenterprise development. Recognizing the need to identify the origin and significance of the data, it is necessary to become familiar with Microfinance USA's mission and operations as an American-based not-for-profit organization.[1]

Microfinance USA: The Organization

Established in 1998 for the purpose of initiating micro-credit lending in the Ukraine, Microfinance USA has grown significantly in the past decade and today interacts with nearly 250,000 clients from 14 countries worldwide. As a faith-based organization, Microfinance USA has compiled a unique mission statement that reflects the organization's commitment to

[1] An important clarification should be made between the influence of U.S. for-profit and non-profit microfinance organizations. According to the article, "The Ugly Side of Microlending," produced for BusinessWeek by authors, Keith Epstein and Geri Smith, for-profit banks have been recorded as imposing annual interest rates to poor borrowers ranging from 50% to 120%. Recognizing that Microfinance USA's data reflects the impact a faith-based not-for-profit organization has on clients within the developing world, it is therefore necessary to distinguish between for-profit and non-profit microfinance organizations and to realize that the commercial application of microfinance practices could produce a dangerous investment environment for struggling entrepreneurs (Epstein & Smith, 2007, para. 1).

excellence through the provision and encouragement of best practice microenterprise development and financial services. However, unlike similar organizations specializing in the global implementation of microcredit facilities, Microfinance USA fully integrates effective business principles with influential Biblical principles to create a unique and holistic approach to poverty alleviation.

Funded by individual donors, churches, private or family foundations, and the Homes for Microfinance USA program, a 501(c)(3) charitable non-profit organization that "enables the building industry to channel resources toward this important social initiative," Microfinance USA International strives "to operate in places that are deeply underserved because other NGOs have deemed them too risky or difficult;" providing clients, commonly referred to as entrepreneurs, with a "hand up" out of poverty while fully expecting clients "to fulfill their obligations and repay their loans" (*Grow*, 2009, p. 14). Although Microfinance USA fully integrates Christian principles into their microfinance practices, they operate independently from local churches. As stated in *Grow: An Introduction to Microfinance USA*, Microfinance USA serves clients regardless of their religious affiliation and they insist that clients recognize that the money they receive to start a new business or support an existing business is a loan and not a gift. Although willing to work with struggling clients, Microfinance USA is strongly opposes an environment where individuals believe they will receive preference for converting to Christianity (*Grow*, p. 15).

Possessing a unique mission, Microfinance USA has encountered significant challenges as an organization (*Grow*, p. 14). As previously mentioned, one of Microfinance USA's objectives is to operate in underserved areas, however, as can be imagined, serious reasons exist as to why many of these developing nations have never received opportunities to experience the benefits of microfinance services. Microfinance USA's clients often live in areas plagued by disease, devastated by conflict, and torn apart by governmental frailties. Often times, microfinance operations encounter several obstacles before clients begin to see the fruition of their investments. Also, as Microfinance USA operates in countries infiltrated by political and social corruption, the organization often encounters clients who have been deceived by local credit institutions and have, as a result, lost everything. Reestablishing an environment of trust is often times exceedingly difficult as communities have been founded on principles of bribery and dishonest agreements (*Grow*, p. 14).

Furthermore, although Microfinance USA has grown exceptionally as an organization and global influence over the past decade, the increase in demand for Microfinance USA's services cannot always be met as funding constraints place limitations on the amount of clients that can be effectively served. As described by a Microfinance USA staff member, "It can become difficult and frustrating for our staff in the field to know the tremendous needs but to have to turn clients away, simply because the funding isn't available" (*Grow*, p. 14). Lastly, as Microfinance USA's mission is to provide alleviation to both physical and spiritual poverty, the organization experiences significant obstacles in establishing microfinance services in countries openly hostile to Christian principles. While the result prevents services to be delivered to deserving clients, significant dangers also arise in relation to the safety of loan officers and Microfinance USA staff administering products in these locations. Microfinance USA leaders must find a balance between administering spiritual poverty alleviation and ensuring the program's continuation and viability within the country.

While Microfinance USA continues to encounter severe obstacles in their goal of administering microfinance products to dedicated entrepreneurs throughout the globe, throughout the NGO's history, data reflects Microfinance USA's overall success rate in the microfinance world.

According to Microfinance USA's 2008 Network Benchmark Report, at the aggregate level, the number of active borrowers totaled 135,147, signaling an increase from the 109,678 recorded in 2007, the network's Operational Self Sufficiency (OSS) rating equaled 100.8% indicating that the majority of Microfinance USA MFIs were having their costs met, and the Portfolio At Risk (PAR) rating equaled 5.7% which, although higher than the desired 2-5% PAR rating, remains a positive indicator of successful microfinance practices. Microfinance USA's President emphasizes, "We are a non-profit organization; this does not mean we are a non-performing agency. We will do whatever it takes to do our work with excellence" (President, personal communications, April 1, 2010). Acknowledging Microfinance USA's success, the president further confirms Microfinance USA's mission to provide the world's poor with exemplary microfinance services.

As Microfinance USA's holistic approach to poverty has shaped the organization's microfinance practices and products in developing nations, and specifically in their interactions with clients in Haiti and the Dominican Republic, identifying what is meant by the term "poverty" will provide an avenue to analyze and evaluate client data. Adopting several principles on poverty initially presented by authors Steve Corbett and Brian Fikkert (2009) in their book, *When Helping Hurts: How to Alleviate Poverty Without Hurting the Poor . . . and Yourself*, Microfinance USA embraces the concept that alleviating physical poverty alone fails to address the complexity of humankind and neglects the spiritual, social, and psychological needs of an individual. Authors Corbett and Fikkert expand this concept further through presenting the concept that humankind is not solely in relationship with the physical world. Instead, the authors argue that individuals are multifaceted and have a four-part association that includes a relationship with self, a relationship with others, a relationship with creation, and a relationship with God (Corbett & Fikkert, p. 57). If any one of these relationships is neglected, the individual experiences poverty.

Microfinance USA embraces this doctrine fully; emphasizing that material wealth alone cannot transform an individual or a community out of poverty. In fact, Microfinance USA maintains the belief that simply bringing material solutions to a developing community may produce more harm to the underserved people than good. Often times an issue encountered by faith-based and non-faith-based organizations alike is the reality that they are in constant relations with Western donors who "believe that they have achieved their wealth through their own efforts and that they have been anointed to decide what is best for low-income people," whom, whether they intend it or not, view as economically inferior to themselves (Corbett & Fikkert, p. 65).

Furthermore, Corbett and Fikkert refer to the status of wealthy Western donors as a "god-complex" arguing that economically wealthy individuals often view themselves as a catalyst; saving poor people from destruction and even "unintentionally [reducing] poor people to objects" in hopes of accomplishing something greater than themselves (p. 65). The doctrine of multifaceted poverty alleviation emphasizes that "one of the biggest problems in many poverty-alleviation efforts is that their design and implementation exacerbates the poverty of being of the economically rich—their god-complexes—and the poverty of being of the economically poor—their feelings of inferiority and shame" (Corbett & Fikkert, p. 65). Microfinance USA recognizes the severity of this issue and establishes procedures with local MFIs to prevent clients from solely having their physical needs met.

Recognizing that the data set reflects trends, transactions, and client satisfaction in the Dominican Republic, a review of Microfinance USA's influence and partnerships within the Dominican Republic will provide helpful insight into whether American-based microfinance practices have resulted in a positive influence on the Caribbean people.[2] Possessing a strong network partnership rationale, Microfinance USA believes that microfinance organizations are "stronger together than alone, and all members play an important role in contributing to the shared knowledge and innovations of the network as [organizations] strive to build world-class institutions" (*Grow*, p. 13). Microfinance USA's strong stance on the issue of partnership is exemplified in their connection to Microfinance DR, a preexisting microfinance organization in the Dominican Republic committed to holistic poverty alleviation efforts and church partnerships. Partnering with Microfinance USA in May 2005, Microfinance Dominican Republic has surpassed development organizations throughout the Dominican Republic, such as USAID, and continues to be the only Caribbean MFI to incorporate Christian principles and microfinance business practices (*Grow*, p. 14).

Promoting the mission "to free children and their families from poverty through initiatives that generate income, education and health, restoring self-worth and dignity to those who have lost hope," Microfinance DR provides clients with such services as microcredit, business training, savings, insurance and group lending. Located in Puerto Plata, Samana, Hato Mayor, El Seibo Ingenio Consuelo, San Pedro de Macoris, and Santo Domingo, the location of the central office, Microfinance DR operates with an 86.2% Self Sufficiency rating and an 8.44% Portfolio at Risk (PAR). As of 2009, Microfinance DR is recorded as having distributed over 45,000 loans since its creation in 1995 with 85% of its clientele population being women (*Dominican Republic Country Brief*, 2009, para. 1).

[2] Although Microfinance USA places significant emphasis on a client's spiritual and emotional well-being, due to data subjectivity and limitations of collecting data which adequately reflects the effect of microfinance practices on the whole person, for the purposes of this study, the effect of microfinance on an individual's emotional and spiritual well-being will not be tested.

Having agreed to form a partnership in February of 2005, Microfinance USA and Microfinance DR work together to "strengthen and expand the ministry of Microfinance DR in the Dominican Republic," and to apply expertise gathered by Microfinance DR staff to other MFIs within the Microfinance USA network (*Memorandum of Understanding*, 2005, p. 1). Microfinance USA's relationship with Microfinance DR is truly symbiotic as Microfinance USA staff assist Microfinance DR through funding, raising nearly $800,000 for operations in fiscal year '08/'09; technical assistance; coaching and mentoring (*Memorandum of Understanding*, p. 13). From a different perspective, Microfinance DR provides Microfinance USA with invaluable connections to local clients, insight into microfinance best practices within the Dominican Republic context, and a network of individuals and information in support of Microfinance USA's mission towards the alleviation of physical, spiritual, and emotional poverty**.**

As Programs Intern for Microfinance USA in the spring of 2010, I have had the privilege of working in close quarters with Microfinance USA representatives specialized in delivering microfinance services to clients within the Dominican Republic and in using microfinance to find innovative solutions to combat global poverty. Highly structured, Microfinance USA has implemented an accounting and loan tracking system referred to as Management Information Systems (MIS) through which daily activities at each microfinance site are recorded and up-to-date reports on microfinance products and programming are delivered from the countries in which Microfinance USA is involved. Receiving financial data from the accounting system and loan data from the loan tracking system, Microfinance USA reconciles incoming data on a regular basis in order to supply donors and clients with current statistics (M. C., personal communication, April 15, 2010).

In the Dominican Republic, Microfinance USA's partnering organization, Microfinance DR, uses an additional MIS referred to as e-MMS. Loan officers at each MFI location within the Dominican Republic are expected to enter loan repayment data into e-MMS upon returning from meeting with clients. The branch manager, loan officers, and operations director use the recently imported data to track each client's loan activity and to then consolidate the information for distribution at the branch and national levels (M. C., personal communication, April 15, 2010). Providing Microfinance USA with current information on client loan disbursements, repayments, and delinquent portfolio rates, e-MMS data can be extracted and entered into the Performance Monitoring Review through which detailed graphs and comparisons can be calculated.[3]

The Performance Monitoring Review, more commonly referred to as PMR, reflects information collected from partnering MFIs working on site and organized by Microfinance USA staff members in Lancaster, Pennsylvania (M. C., personal communication, April 15, 2010). Receiving permission to access data found within Microfinance USA's 2006 to 2010 Performance Monitoring Review reports, the independent variables of gender, profitability, portfolio quality, and sustainability will be tested to determine their relation to microfinance effectiveness using data collected on site within the Dominican Republic, entered into e-MMS, and organized by Microfinance USA through monthly PMR reports.[4] Although PMR records depict microfinance

[3] The e-MMS system is critical to MFIs as it provides data to manage the most important asset of an MFI, the loan portfolio, while presenting controls on finances and assuring the segregation of staff duties to individuals who may obtain access to both cash and accounting records (M. Crist, personal communication, April 15, 2010).
[4] PMR reports contain performance-related data from all Dominican Republic clients currently involved in microfinance services provided by Microfinance DR. Although socio-economic data for clients has been recorded since 2004, Microfinance DR has found that there is "not a significant amount of data, nor time to conduct comparative analyses looking at the [social] effects of the program on borrowers over time." However a socio-economic survey and impact monitoring program has been created by the organization and is included in its entirety in Appendix A of this paper (Findley, 2006, p. 3).

activity from fourteen different countries, the data used to test the presented hypotheses is specific to the Dominican Republic. [5]

Dependent Variables: Microfinance Effectiveness

Although MFIs around the world have conducted numerous studies to determine the effectiveness of microfinance, past literature evidences that one is unable to truly represent effective microfinance through a single indicator. According to Nathanael Goldberg's, "Measuring the Impact of Microfinance: Taking Stock in What We Know," a report released in December of 2005 by the Grameen Foundation USA, the Grameen Bank studies three distinct areas of financial performance—profitability, saving mobilization, and portfolio quality—and two distinct areas of social impact measures—education levels of borrower's family members and whether all Grameen families have left poverty, in order quantify microfinance effectiveness (Goldberg, p. 11).

Furthermore, in order to create a representative final performance indicator, the Grameen Bank has developed "ten easily observable indicators that, when all are met, strongly suggest that a family has escaped poverty" (Goldberg, p. 11). Examples of the indicators included in the Grameen final performance indicator include such things as determining whether a family has adequate clothing for everyday use, whether the family uses a sanitary latrine, and whether the family has sources of additional income (Goldberg, p. 11). The Grameen Bank's list of indicators can be found in its entirety within Appendix B of this paper. [6] However, as it is increasingly

[5] The PMR data set that will be referred to throughout this project contains sensitive performance data for all countries within the Microfinance USA Network. The Microfinance USA PMR is an internal document that is designed to inform Microfinance USA staff, partners, and stakeholders about operational performance, but it is not designed to be shared externally. This document and the information it contains should be treated as confidential and is not to be shared with those outside of Messiah College's Politics Department.

[6] It is necessary to note that, while achieving all ten indicators often reflects that a family has crossed the poverty line as a result of microfinance, "all poverty lines are to some degree arbitrary," and therefore, the Ten Indicators, by themselves, do not successfully determine the effectiveness of microfinance (Goldberg, p. 12).

difficult to measure all ten indicators and recognizing the limitations of data available through the Performance Monitoring Review, in order to best accurately depict the influence of microfinance within the Dominican Republic, the microfinance performance indicator to be used within this study will consist of two dependent variables, Gross Domestic Product and the GINI Index of Income Distribution.

The Gross Domestic Product (GDP), or Gross Domestic income (GDI), measurement reflects a country's overall economic output. Calculated by combining the private consumption levels of the country with the gross investment, government spending, and exports minus imports, GDP levels reflect measures of production regardless of how the production is put to use (Sullivan, 1996). Although GDP is not a measurement of the standard of living in an economy, there is often a strong correlation between the two because the standard of living tends to increase when GDP per capita increases (Sullivan, 1996, p. 57). While GDP is often analyzed from a macroeconomic perspective and takes into consideration areas of a country's economy that may not be influenced by microfinance practices, as the ultimate purpose of microfinance is to lift individuals out of poverty, or to at least maintain a sustainable livelihood, for the purposes of this study, using GDP measurements from the Dominican Republic between 2000 and 2008 as a dependent variable will provide sufficient representation of the impact of microfinance. Furthermore, past studies, including the Macrothink Institute's report on "Microfinance and Inequality," have found GDP to be an effective control variable in measuring economic inequality and determining the universality of the impact of microfinance among developing countries (Kai & Hamori, 2009, para. 6).

The Gini Index has been selected to accompany GDP as a dependent variable in this study because, while the Gini index may seem to be abstract in its conception, according to author Lisa

Smith (2007), in her article, “The Gini Index: Measuring Income Distribution,” in many cases, “net income has a direct effect on quality of life” and therefore provides “a way to quantify and track the direction in which a society is moving” (Smith, “Quality of Life”). Using Gini index measurements within the Dominican Republic from 1998 and 2005, this study will analyze whether microfinance has had an influence on the distribution of family income within Dominican households.

Specifically designed to measure income distribution, the Gini Index is based on the Gini coefficient, “a statistical dispersion measurement that ranks income distribution on a scale between 0 and 1” (Smith, “Interpreting the Gini”). Originally developed in 1921 by Italian statistician Corrado Gini, the Gini coefficient provides measurements on the inequality of distributions, but is also commonly associated with wealth (Smith “Interpreting the Gini”). A reading of 1 in the Gini index indicates that perfect inequality exists among the nation. As a result, a reading of 0 in the Gini index indicates a perfect distribution of wealth within the nation (Smith, “Interpreting the Gini”). However, while the Gini coefficient displays measurements on a scale between 0 and 1, the Central Intelligence Agency quantifies Gini Index measurements based on the Lorenz curve “in which cumulative family income is plotted against the number of families arranged from the poorest to the richest,” and therefore, the graphic representations presented in this study will display Gini Index measurements on a scale between 0 – 100, with 0 representing a perfect distribution of wealth and 100 representing perfect inequality (CIA, para. 1).

As with all indicators, certain limitations exist when using the Gini index to identify the economic health of a country. For example, as the Gini index measures net income and not net worth, “the majority of a nation’s wealth can still be concentrated in the hands of a small number of people even if income distribution is relatively equal" (Smith, "Gini In the Real World"). According to The World Factbook produced by the U.S. Central Intelligence Agency, Gini index statistics generally range from .25 to .60 with European countries such as Great Britain registering at .34 in 2005 and the United States registering at .45 in 2007 (Smith, "Gini In the Real World"). Furthermore, in addition to neglecting the measurement of net worth, the Gini Index is limited in that it provides only annual measurements from the Dominican Republic and therefore does account for monthly fluctuations (CIA, 2009, para. 2).

In addition to addressing the individual limitations of GDP and Gini Index data in relation to the study, limitations exist at an aggregate level as the national level data of GDP and the Gini Index will be used to assess the lower level organizational data of Microfinance DR. Working with local communities and partners to provide poverty alleviation to specific areas of society, Microfinance DR has an influential, yet contained, economic affect. As GDP and the Gini Index reflect economic change and growth at the national level, the covariation between the nationally-measured dependent variables and locally-measured independent variables may be weak. Furthermore, as Microfinance DR has only been offering microfinance services in the Dominican Republic since 2005, the true effects of local microfinance efforts may not yet have had adequate time to fully influence the Dominican economy at a national level. Through identifying these limitations, the study's findings can be better analyzed and applied.

Independent Variables: Gender

While gender is not expected to influence microfinance effectiveness in the same way as profitability, portfolio quality and sustainability, the unique contextual and social environment found within the Dominican Republic ensures that gender does play a significant role in determining whether the needs of the lowest sector of the population are being met. As women have historically constituted as the poorest members of Dominican society, the client population of microfinance institutions within the Dominican Republic should reflect the susceptibility of Dominican women to economic hardships. Therefore, recognizing the existence of gender inequality within the Dominican Republic, it can be hypothesized that in order for microfinance to have the largest impact on Dominican communities, the majority of Microfinance DR's clients will be women.

Profitability

Recognized as one of five measurements indicating financial performance of an MFI by the Grameen Bank, profitability has been selected as one of the four independent variables to be applied in this study. Defined as the ability for an MFI to generate net income on a consistent basis, profitability implies that if an MFI is doing well financially, the loan clients have been able to follow through with the loan repayments, and, as a result, have grown their small businesses, thus contributing to the country's economy (Business Dictionary, 2010, para. 1). Therefore, a positive correlation exists between profitability and microfinance effectiveness if, when the financial profitability of an MFI increases, there is an increase in the nation's GDP rating and a decrease in the nation's Gini Index rating.

In this study, the independent variable of profitability will be measured using Financial Self-Sufficiency (FSS) ratings collected by Microfinance DR in the Dominican Republic and organized by Microfinance USA in the 2006 – 2009 Performance Monitoring Reviews. Defined as a figure demonstrating the ability of an MFI to cover all its costs, including operating costs and currency devaluation due to inflation, FSS ratings are standard calculations used in the microfinance industry to determine if an MFI is able to operate and govern by itself (S. R., personal communication, April 1, 2010). [7] Although FSS ratings provide MFIs with valuable information, limitations for using FSS measurements to determine an MFI's profitability do exist. For example, as PMR has only recorded FSS data for the years of 2007, 2008, and the beginning of 2009, the long-term influence of FSS measurements are unable to be identified. Also, as ideal FSS ratings are often difficult for an MFI to reach, an MFI with average ratings falling below the intended target cannot be labeled as unprofitable or ineffective. Ultimately, as indicated by the hypothesis, an increase in FSS should correlate with an increase in microfinance effectiveness.

Portfolio Quality

A second measurement recognized by the Grameen Foundation as indicating a positive performance of microfinance practices is Portfolio Quality. A microfinance portfolio consists of "a combination of assets held for its investment benefits, including financial and non-financial returns" (GDRC, "Portfolio Quality"). Microfinance portfolios vary in kind and size, and depending on the organization, may vary depending on the region of the world involved. Therefore, an MFI's portfolio quality is determined by the return rate of loan repayments and the ability of the organization to collect payments past due.

In this study, the independent variable of portfolio quality will be measured using Portfolio At Risk (PAR) ratings collected by Microfinance DR in the Dominican Republic and organized by Microfinance USA in the 2006 – 2009 Performance Monitoring Reviews. Recognized as the "measurement of the total outstanding balance of loans past due - not late payments or payments not yet due - divided by the active portfolio," PAR acts a more thorough way of assessing portfolio quality than such measurements as portfolio past due and delinquent portfolio ratings

[7] It should be noted that an MFI with a 100% FSS rating is still dependent on outside donors for capital to extend the influence of existing MFIs to new locations and clients (*PMR User Guide*, 2009, para. 2).

(GDRC, “Portfolio At Risk”). Analysis of PAR levels provides MFIs with an understanding that a healthy MFI maintains a portfolio with a controlled risk level, whereas an MFI with a high risk portfolio is more subject to deterioration and corrosion.

Limitations in determining an MFI’s portfolio quality do exist. For example, in recent years, Microfinance USA and partnering MFIs have experienced high PAR levels, and as a result, have conducted variations of write-offs to more accurately portray changes in PAR levels that have occurred on a monthly basis. Therefore, although the data accurately reflects the portfolio’s risk level for the month, the ratings fail to account for loans that have been written off due to a client’s inability to repay the borrowed sum.

Recognizing that the main source of income for an MFI is its loan portfolio and that in order to reach a large number of clients and promote principles of credit discipline the MFI maintain a good loan portfolio, measuring, tracking, and reporting on PAR levels in an organization is essential to an MFIs success and longevity in the field (NAPC, 2008). Defining an ideal PAR rating as anything between 2-5%, Microfinance USA interprets high PAR levels as an indication that microfinance clients are either unable or have chosen not to continue with loan repayments. As a result of unpaid loans, PAR levels increase and the portfolio quality of an MFI decreases. Therefore, as stated in the hypothesis, as the portfolio quality decreases as the result of raised PAR levels, microfinance effectiveness should also decrease.

Sustainability

A third indicator of a successful MFI is that of sustainability. Defined as “the ability of a microcredit program to maintain its operations and continue to provide service to its customers or clients,” sustainability is reached when a program’s external grants, loans, and internal revenues cover program expenses over the long term (GDRC, “Sustainability”). Described by the

Grameen Foundation USA as a major indicator to the health and livelihood of an MFI, sustainability ensures that microfinance programs can continue to operate and that enough revenue is being generated to outweigh the costs of the MFI (Goldberg, 2005, p. 7).

For the purposes of this study, the independent variable of sustainability will be measured using Operational Self-Sufficiency (OSS) ratings collected by Microfinance DR in the Dominican Republic and organized by Microfinance USA in the 2006 – 2009 Performance Monitoring Reviews. Presented as a percentage, OSS is a standard calculation used throughout the microfinance industry to directly measure the sustainability of an MFI. According to Microfinance USA, Operational Self- Sufficiency "demonstrates the percentage of operating costs that is covered by income," and is calculated by dividing the earned income of an MFI by the total expenses and the total adjustment (S. R., personal communication, April 1, 2010). While few limitations exist in measuring for sustainability, it is necessary to recognize that, although a MFI has reached sustainability when the OSS figure equals 100%, in reality, MFIs desire OSS to be higher than 100% to provide further institutional security. Therefore, it can be deduced, that if a relationship exists between sustainability and microfinance effectiveness, as an MFI becomes more sustainable, the contributions to the local economy should also increase, thereby increasing the nation's GDP and decreasing the nation's Gini index.

Findings and Analysis

Located on the eastern two-thirds of the island of Hispaniola, the Dominican Republic covers an area of land equal to 48,670 square kilometers. With a population size equaling 9,650,054 as of a July 2009 census, with roughly 3,087,351 people being male between the ages of 15-64 and 2,960,319 people being female between the ages of 15-64, the rugged highlands and fertile valleys of the Dominican Republic serve as home to a multitude of individuals (CIA, "Economy"). Historically recognized as an exporter of sugar, coffee, and tobacco, the Dominican Republic economy has only recently been overtaken by a strong agricultural sector which exports nearly two-thirds of its products to the U.S. (CIA, "Economy").

Introducing microfinance practices in 2005 to areas experiencing severe poverty within the Dominican Republic, Microfinance DR currently provides loan products to 7,800 of the country's inhabitants. Directly impacting less than one percent of the Dominican's population, it is presumptuous to assume that the influence of Microfinance DR is all-encompassing. However, as Microfinance DR has several locations throughout the Dominican Republic, the microfinance services provided to Microfinance DR clientele do influence a multitude of regions throughout the country and thus may have a larger impact on surrounding populations than initially expected. Recognizing the existing limitations, the study will first test the hypothesis of gender which states that microfinance has a larger impact on Dominican women than Dominican men.

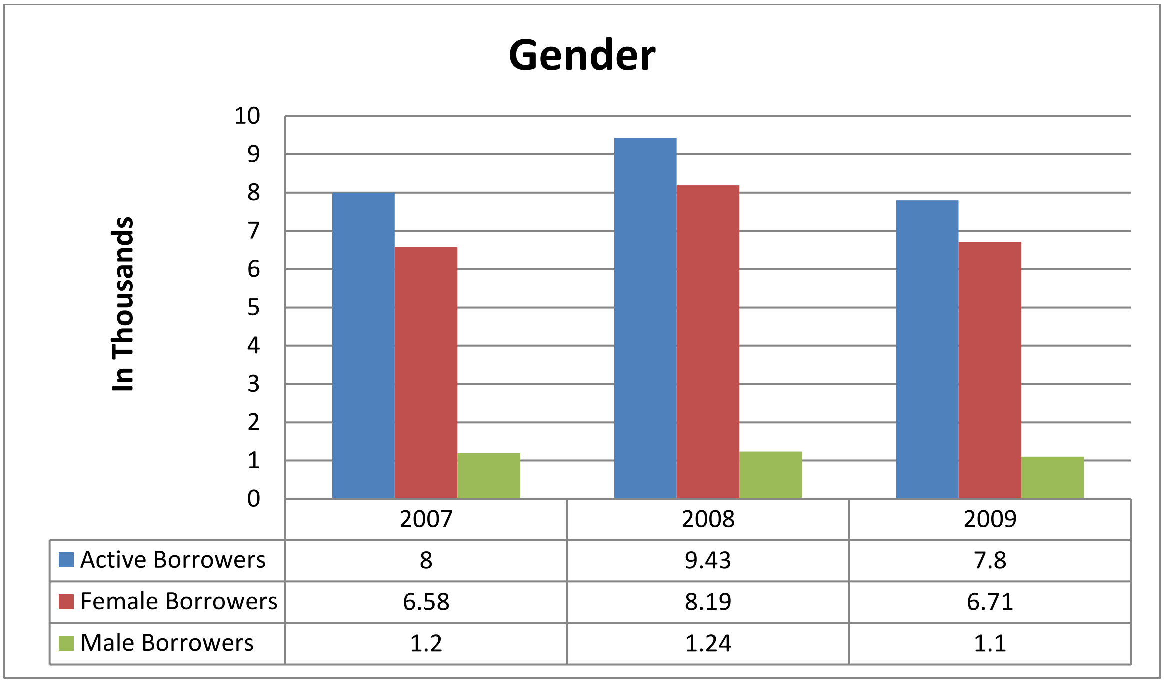
Gender

As extensive research has been conducted to determine the influence of microfinance on female clients, it is beneficial to reference past gender studies to determine the impact of gender on the effectiveness of Dominican microfinance. In the Khandker study of 2005, researchers analyzed the impact of microfinance on women and men only to find that, while women were influenced substantially, the men received no impact from borrowing (Goldberg, 2005, p. 8). Furthermore, in the 1996 study conducted by Hashemi, Schuler, and Riley entitled, "Rural Credit Programs and Women's Empowerment in Bangladesh," the researchers found that each year of client membership within a MFI increased the probability of a female borrower becoming empowered by 16 percent (Goldberg, p. 8). The study also found a spillover effect from microfinance as even women who did not participate in borrowing were more likely to be empowered just by living within the same community as female microfinance members (Goldberg, p. 8).

In contrast, additional studies have found greater returns to male borrowers, such as the paper, "Who Takes the Credit? Gender, Power, and Control Over Loan Use in Loan Programs in Rural Bangladesh," written by Anne Marie Goetz and Rina Sen Gupta in 1996 which recorded that rates of return on female enterprises average 145 percent whereas male enterprises average 211 percent. While this data contradicts the Khandker study, the authors acknowledge that an influencing factor of the results may have included that 39 percent of the women included in their sample had little to no control over their loan. Referred to as "pipelining," the practice of male control over a loan is especially common in the Bangladesh region (Goldberg, p. 44). While the research remains inconclusive, similar studies have found that "even in the case where women have the least control, . . . women are better off with microfinance than without" (Goldberg, p. 9). Certainly, previously conducted research emphasizes microfinance as a positive factor to female poverty and further accentuates the need for cultural awareness when studying microfinance practices.

Recognizing, through past literature, that gender plays a significant role in determining whether the needs of the lowest sector of the population are being met, and that Dominican Republic women have historically constituted as the poorest members of society, it has been hypothesized that, in order for microfinance to have the largest impact on Dominican communities, the majority of Microfinance DR's clients will be women.

Figure 1.



The previous graph, depicting the gender of Dominican Republic clients from 2007 to 2009, illustrates the male-female ratio of Microfinance DR's borrowers.

As demonstrated by Figure 1, Microfinance DR has a much higher percentage of female clientele versus male clientele. For example, in 2007, of the 8,000 active borrowers, 6,580 clients were female, whereas only 1,200 clients were male[8]. Again, in 2008, of Microfinance DR's 9,430 active borrowers, 8,190 of these were female, and 1, 240 of these were male. Lastly, in 2009, of the 7,800 active borrowers, 6,710 clients were female, whereas only 1,100 clients were male. The drastic ratio difference between female and male borrowers supports the hypothesis' claim that in order to best meet the needs of the developing country, the majority of Microfinance DR's clients will be women.

[8] The data used throughout the study was acquired from internal Microfinance USA Performance Monitoring Reports distributed during 2007, 2008, and 2009.

Profitability and Effectiveness

Having determined that the Microfinance USA gender data supports the study's initial hypothesis and having chosen to use Microfinance DR data to conduct a study on the effectiveness of microfinance through determining the impact of microfinance measurements on such country indicators as Growth Domestic Product and income distribution, the research will provide an in-depth analysis on the relationship between the independent variables of profitability, portfolio quality, and sustainability, and the dependent variables of Growth Domestic Product and the Gini Index of income distribution.

As recognized by previous literature, the Dominican economy is highly influenced by the United States and has, throughout history, experienced the same economic highs and lows shared by the states. Evidenced through past GDP measurements, the Dominican economy has continued to grow steadily with GDP increasing from $24 billion in 2000 to $34 billion in 2005. Again, in 2007, GDP was on the rise measuring at $41.32 billion, however, by the middle of 2008, GDP growth began to slow due to the influence of the global recession which impacted the revenue stream of tourism and remittances. Recorded at $45.24 billion in 2009, the U.S. Central Intelligence Agency predicts a rebound in the Dominican's GDP by the end of 2010 (CIA, "Economy").

In comparison, according to Gini Index statistics produced by the Central Intelligence Agency of the United States, the Dominican Republic ranks 26th out of 134 countries in the distribution of family income (CIA, "Economy"). As the Dominican Republic suffers severely from marked income inequality, where "the poorest half of the population receives less than one-fifth of GDP, [and] the richest 10% enjoys nearly 40% of GDP," the Gini Index remains a significant indicator in determining the economic health of the nation, as well as, in recognizing the existence of division between the economic classes (CIA, "Economy"). For the purposes of the study, the first relationship to be evaluated involves Microfinance DR's indicator of profitability, measured using ratings of Financial Self-Sufficiency collected during the years of 2007 and 2008, and the Dominican Republic's measurements of GDP and the Gini Index collected during the same annual periods.

In order to understand how the variables of GDP and profitability relate to one another, it is first necessary to evaluate the measurements of Financial Self-Sufficiency (FSS) and to identify the health of Microfinance DR as a microfinance institution between the years of 2007 and 2008. Throughout 2007, Microfinance DR's Financial Self-Sufficiency ratings, although fluctuating significantly, remained relatively low. For example, in January of 2007, FSS measured low at 51.1%. The FSS rating in January of 2007 indicates that Microfinance DR as an MFI was only half as profitable as originally intended, for, as high levels of MFI profitability indicate that an MFI is doing well and that client needs are being met, MFIs attempt to produce FSS levels nearing 100% or above. In 2007, the average FSS for Microfinance DR equaled 65.48% with the highest FSS measurement recorded in November of 2007 at 81.1%. Overall, during 2007, Microfinance DR had 12,832 clients, had provided $5,437,658 worth of loans since inception, and was operating from eight different offices.

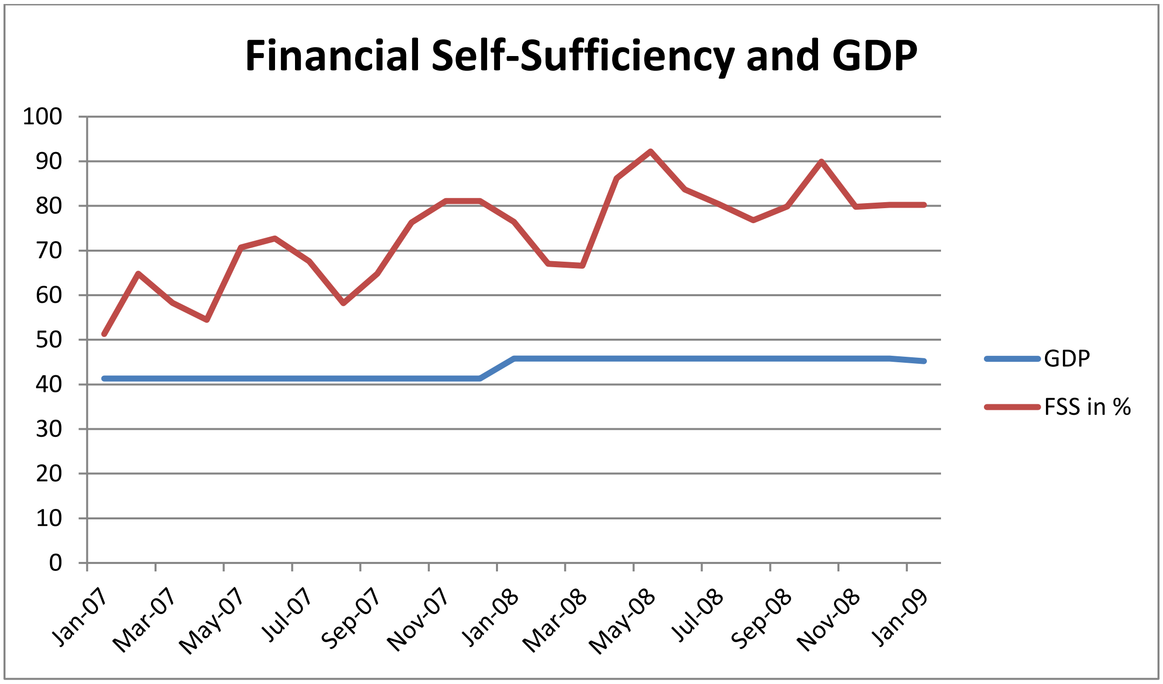
In 2008, Microfinance DR saw an increase in FSS levels as the annual average reached 79.92%. Although this measurement is still significantly below the intended 100% profitability rating, it is important to identify the increase from the previous year. Similar to the previous year, however, FSS levels fluctuated significantly by month. In January of 2008, Microfinance DR recorded FSS at 76.4% and in February of 2008 at 67.0%. May's measurement equaled the highest measurement of 2008 at 92.2%, emphasizing that reaching Financial Self-Sufficiency is indeed possible, although difficult to sustain. The FSS data alone identifies the difficulties MFIs within the Dominican Republic may encounter if they are unable to receive loan repayments from customers and therefore, are unable to cover the institution's costs. Overall, as an institution in 2008, Microfinance DR saw a decrease in clients, serving 8,875 borrowers, and an increase in Financial Self-Sufficiency.

GDP.

As evidenced by Figure 2, the Dominican Republic experienced a significant increase in GDP between 2007, measuring $41.32 billion, and 2008, measuring $45.79 billion (CIA, "Economy"). During this time period, the Dominican Republic had yet to be strongly impacted by the global recession and the country experienced a significant increase in tourism revenues. However, as identified by the Oxford Economic Country Briefing (2009) at the end of 2008, the Dominican economy slowed considerably as a result of tightening monetary policies, deteriorating terms of trade, and "four tropical storms which disrupted agricultural production, damaged infrastructure and led to loss of life" (Oxford, para. 1). Furthermore, as a result of the global recession, the United States and EU, destinations which typically import 40% and 19% of the Dominican Republic's goods respectively, have decreased their purchasing of Dominican imports (Oxford, para. 1). The impact of the external economic influences is further evidenced by the GDP decrease from $45.79 (billion) in 2008 to $45.24 (billion) in 2009 (CIA, "Economy").

Presented linearly, the dependent variable of Gross Domestic Product and the independent variable of profitability appear to be related. Microfinance DR data, measured monthly, appears to follow a similar trend to that of GDP. As GDP levels increased at the beginning of 2008, there is a noticeable incline in FSS levels. Again, as GDP drops from $45.79 billion in 2008 to $45.24 billion in 2009, the trend in FSS data as of November 2008 is on the decline dropping from a high of 89.9% to a low of 79.8%. However, as Microfinance DR does not provide FSS figures past the month of January 2009, the data is limited and is unable to adequately determine the existence of a relationship between the variables.

Figure 2.



While major fluctuations between the two variables appear relatively synchronized, there does not exist a clear covariation indicating that high levels or low levels of FSS are influencing an increase or decrease in GDP. In fact, it appears as though an external economic factor may be influencing both the nation's gross domestic product, as well as, Microfinance DR's ability to function successfully as a MFI. As mentioned previously, during this two-year time period, the Dominican Republic experienced a decrease in economic exports as well as a decrease in revenues raised through tourism. While these economic hardships directly influenced Dominican macroeconomic development through altering the nation's GDP, the economic hardships may have also affected the revenue stream and clientele population affiliated with microeconomic development.

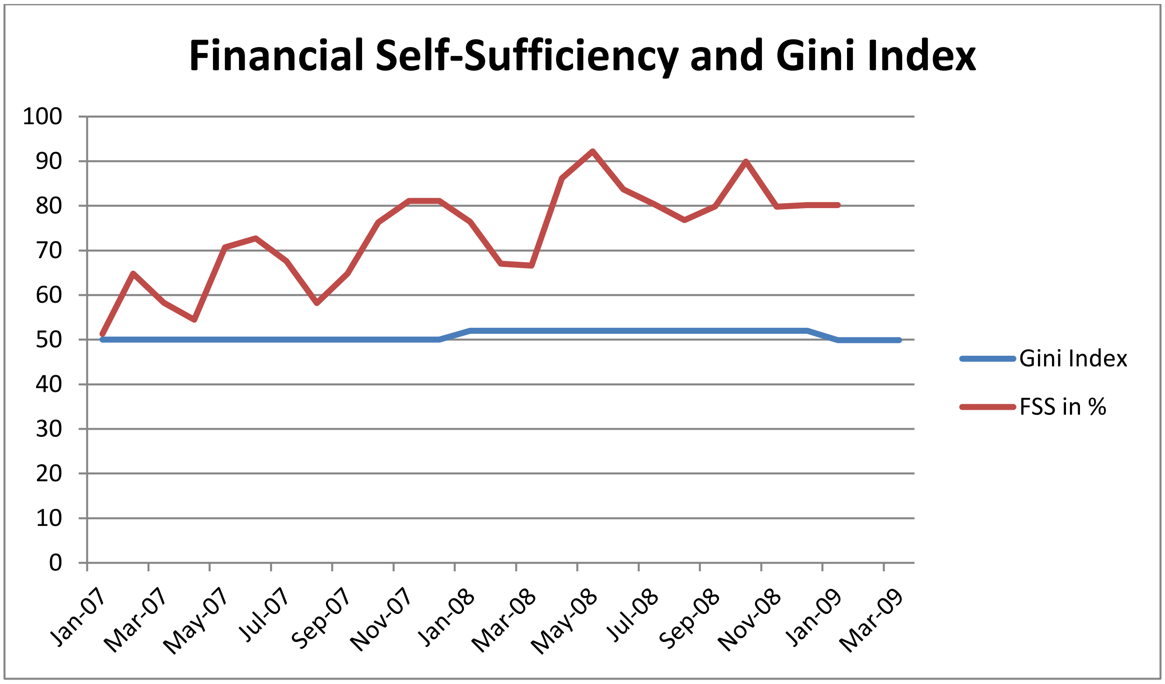
For example, according to Deeper Africa (2009), an organization that promotes ethical tourism, microfinance participants are able to benefit from tourism. Depending on the location of the microfinance business, microfinance clients are able to sell their business items and food products to external visitors in exchange for currency (para. 3). While external visitors are not the only consumers of microfinance participant products, a decrease in tourism could certainly impact the revenue stream of the borrower, thereby influencing their ability to pay back a loan, and ultimately contributing to a decrease in a MFIs financial self-sufficiency. Recognizing the existence of external economic factors on the Dominican Republic's GDP levels during 2007 and 2008, it can be argued that the profitability of an MFI does not directly correlate with microfinance effectiveness.

Gini Index.

Through comparing measurements of Microfinance DR's levels of Financial Self-Sufficiency collected during the years of 2007 and 2008, and the Dominican Republic's annual Gini Index figures during the same time period, it will become evident as to whether the profitability of an MFI influences microfinance effectiveness. Having already analyzed the health of Microfinance DR as a microfinance institution during the years of 2007-2009, it is beneficial to evaluate the changes in income distribution recorded by the Gini Index.

As evidenced in Figure 3, the Dominican Republic experienced a change in income distribution between 2007, measuring 50, and 2008, measuring 54. Recognizing that a 100 on the Gini Index represents perfect inequality of income distribution and a 0 on the Gini Index represents perfect distribution of wealth, this increase indicates that income distribution within the Dominican Republic became increasingly unequal. As mentioned previously, although, during this time, the Dominican Republic had yet to be strongly impacted by the global recession and the country was still receiving revenues from tourism, significant disparity between the poorest and wealthiest sectors continued to exist.

Figure 3.



Therefore, while the poorest sector of the Dominican Republic might have been profitable during this time period, a significant increase in profit for the wealthiest 10% of the country would have still produced a change in wealth distribution within the Gini Index.

An additional change occurred in the Gini Index in 2009, as income distribution returned to a measurement of 50 in January of 2009 from a measurement of 54 in January of 2008. To better recognize the significance of the Gini Index measurements for the Dominican Republic, it is beneficial to compare the Dominican Republic's income distribution ranking to countries with income distributions at opposite ends of the Gini Index spectrum. For example, ranking 42nd out of 134, the United States maintains an average annual Gini Index score of 45. While 45 remains a high score, if compared to the income distribution of Namibia, which ranks first out of 134 countries in unequal income distribution with a score of 70.7, wealth distribution within the

United States appears healthy. Similarly, while the Dominican Republic remains in the top 20% of countries with the highest levels of unequal income distribution, compared to neighboring Latin American countries, the Dominican Republic appears better off.

Furthermore, through studying the measurements of income distribution prior to 2007, it is evident that the unequal distribution of wealth within the Dominican Republic has existed for over three decades. For example, in 1986 and 1989, the Dominican Republic's Gini Index score equaled 47.8. Experiencing an increase in 1992, the country's Gini Index equaled 51.4, only to experience a decrease in 1996 with a score of 48.7. Changes in income distribution continued to fluctuate in 1998 with the Dominican Republic experiencing a score of 47.4 and in 2003 with the country increasing to a high of 51.8 (CIA, "Economy"). Certainly, these measurements reflect the reality that unequal income distribution has consistently plagued the Dominican economy and that several influencing factors have contributed to the disparate distribution.

A significant factor contributing to unequal income distribution within the Dominican Republic is the existence of unjust land distribution (Machicado, 2008, "Income Distribution"). In his article, "The Distribution of Income and Food Consumption by Income Level: A Presentation of the Situation in Chile and the Dominican Republic," author Flavio Machicado explains that unequal land distribution between the wealthiest and poorest sectors of the Dominican Republic has resulted from the minority population receiving too much control over Dominican economic activities (Machicado, "Income Distribution"). Machicado emphasizes that the wealthiest 10% of individuals own the largest portions of land and that multi-national corporations, involved in sugar cane production, banking, and mining, have taken control over what remains of prominent Dominican land and resources (Machicado, "Income Distribution").

Certainly, until the poorest 40% is able to have access to productive land and resources, the disparity among income distribution within the Dominican Republic will continue to exist.

Hypothesizing that when the financial profitability of an MFI increases, the effectiveness of microfinance also increases, if microfinance is found to be effective, as profitability levels increase, unequal income distribution should decrease. Analyzing the relationship that exists between the Gini Index and the variable of profitability, fluctuations between the Dominican Republic's Gini Index and FSS levels appear to be related. For example, as illustrated by Figure 3, the raise in Microfinance DR's FSS levels at the end of 2007 through the end of 2008, appears to be followed by a decrease in unequal income distribution in 2009. Increasing from an annual average in 2007 of 65.48% to 79.92% in 2008, average FSS levels rose dramatically indicating that the MFI is doing well financially and that clients are repaying loans within the allocated time. Having increased from a measurement of 50 in January of 2007 to a measurement of 54 in January of 2008, the Gini Index for the Dominican Republic returned to a measurement of 50 in 2009. The decrease in income distribution indicates an increase in equal income distribution and a possible covariation between the two variables.

Portfolio Quality and Effectiveness

Indicating a healthy MFI, PAR measurements of 2%-5% emphasize that the majority of an MFI's client population are continuing with loan repayments on schedule. Microfinance DR's PAR levels remained on the high end in 2007, with a low of 2.98% in December of 2007, a high of 6.26% in February, and an annual average of 4.91%. In 2008, the graph indicates that PAR levels remained under 5%, with a low of 2.85% in May of 2008, a high of 4.85% in December of 2008, and an annual average of 3.5%. Lastly, having been granted access to 2009 PAR data, it is found that PAR levels increased significantly in February at 6.67% and continued rising.

Recorded in March of 2009, Microfinance DR's highest PAR level was found to be 8.38%, with a low of 3.70% in January of 2009. The annual average equaled 6.48% emphasizing that, during the 2009 loan period, the Dominican MFI encountered significant obstacles in receiving loan repayments from clients.

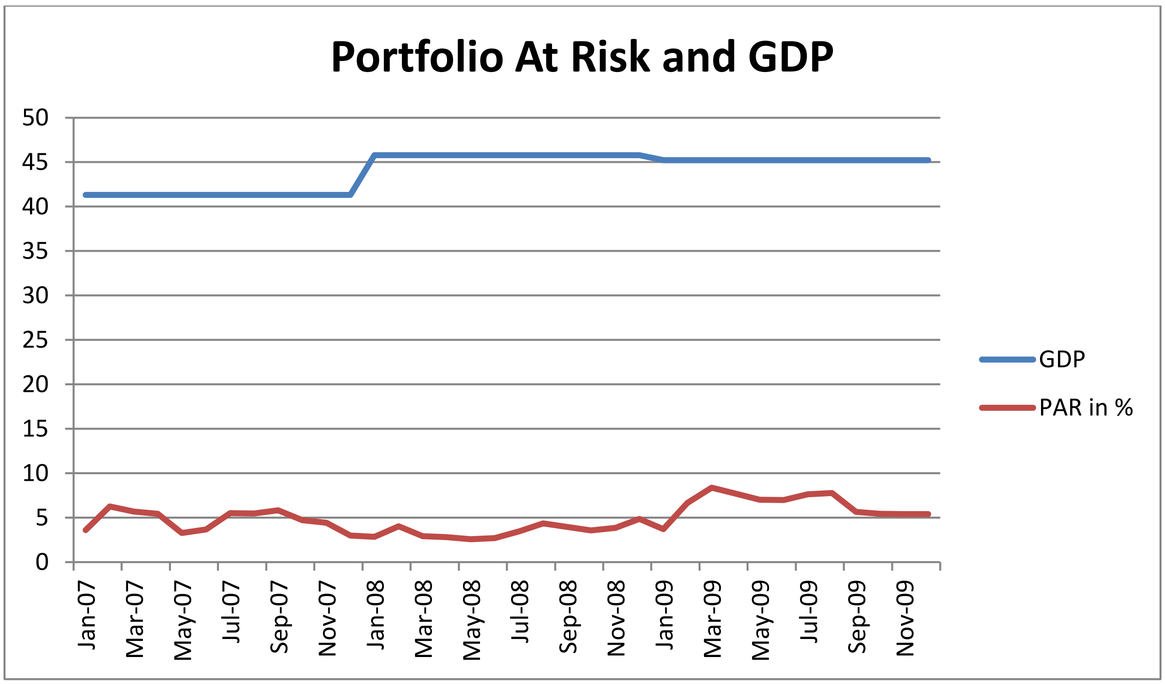
Several explanations exist as to why PAR levels may have spiked in 2009. For example, as several external economic influences were negatively impacted by the global recession, one reason for the increase in PAR levels involves the reality that the borrower communities are unable to pay back borrowed loans within the allotted time due to an increase in external economic limitations. Like measurements of FSS, a MFI's PAR levels may be influenced by a decrease in the country's ability to export goods or import tourists. However, in addition to the global recession, organizational inefficiencies, poor distribution of assets, and corrupt management have all been identified as contributors to high PAR levels within an MFI.

Identifying a dangerous increase in PAR levels across their network in 2009, Microfinance USA has recently implemented strict internal auditing procedures to aid in detecting instances of fraud within MFI management, as well as in identifying instances of poor controls and compliance among clientele. As this technology is recent, it remains uncertain as to the strength of the relationship between fraud, poor client compliance, and increasing PAR levels within the DR, however, it is certain that, until these negative influences can be resolved, PAR within the DR will remain dangerously high.

GDP.

Through comparing measurements of Microfinance DR's levels of Portfolio At Risk collected during the years of 2007, 2008, and 2009, and the Dominican Republic's measurements of GDP during the same annual periods, the research will next evaluate the relationship between portfolio quality and GDP. Recognizing that successful microfinance institutions rely on the repayment of client loans and a strong portfolio quality, it was hypothesized that, when an MFI experiences an increase in measurements of Portfolio At Risk, the effectiveness of an MFI decreases. Through linearly organizing the 36 monthly measurements of PAR gathered in the Dominican Republic between 2007 and 2009, Figure 4 illustrates the relationship between the country's GDP and Microfinance DR's portfolio quality.

Figure 4.



Analyzing the relationship that exists between the two variables, as found with GDP and FSS, major fluctuations between the GDP and PAR appear to be synchronized. According to Figure 4, as PAR levels decrease, GDP increases. This fluctuation can be observed in January of 2008 where PAR dropped from 4.45% in November of 2007 to 2.85% in January of 2008 and GDP increased from $41.32 billion in 2007 to $45.79 billion in 2008. Also, as demonstrated in 2009, an increase in PAR levels was mirrored by a small, yet observable, decrease in GDP. For example, in February of 2009, Microfinance DR's PAR levels increased from 4.85% in

December of 2008 to 6.67% in February of 2009. Decreasing from $45.79 billion in 2008 to $45.24 billion in 2009, GDP reflects an opposite but consistent trend to that of PAR. Therefore, similar to the relationship identified between GDP and FSS, the relationship between PAR and GDP appears to be inversely related. Although the data is unable to prove a direct correlation between the two variables, it may indicate, in the least, that PAR and GDP are impacted by similar external factors.

Furthermore, although Microfinance DR's annual PAR levels for 2010 are still being processed, a recent report released by Microfinance USA records PAR levels as of February 2010 at 4.9%. Interestingly enough, according to the Oxford Economic Country Briefing, economists are forecasting a GDP growth rate within the Dominican Republic of 3.3% in 2010 (Oxford, "Caribbean Update"). If this prediction has validity, the past trend will once again be repeated; for as GDP increases by 3.3%, PAR levels decrease from 5.42% in December of 2009, to 4.9% in February of 2010.

In addition to the release of February 2010 PAR levels in the Dominican Republic, Microfinance USA has recently organized a graph depicting network levels of PAR levels from 2009 among MFIs across the globe. As illustrated by the red line included in Figure 5, 5.0% is the targeted PAR level. Although the African MFIs initially possessed the best PAR levels within the 2009 Microfinance USA network, as of September of 2009, the Caribbean MFIs, including Microfinance DR offices in the Dominican Republic and Haiti, had reduced PAR enough to replace the African MFIs. The comparison of PAR levels between countries provides a greater understanding as to where Dominican MFIs stand and emphasizes the reality that, although Microfinance DR has experienced PAR levels as high as 8.38%, as recorded in March of 2009, MFIs in Eastern Europe, for example, have reached PAR levels surpassing 20%.

Figure 5.

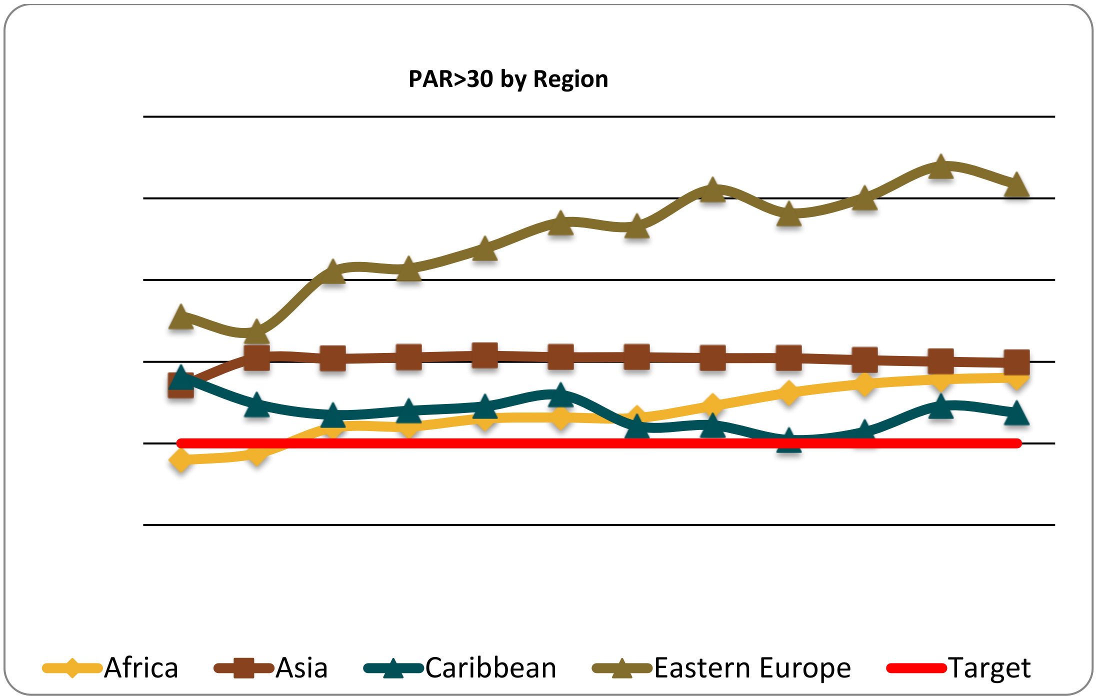


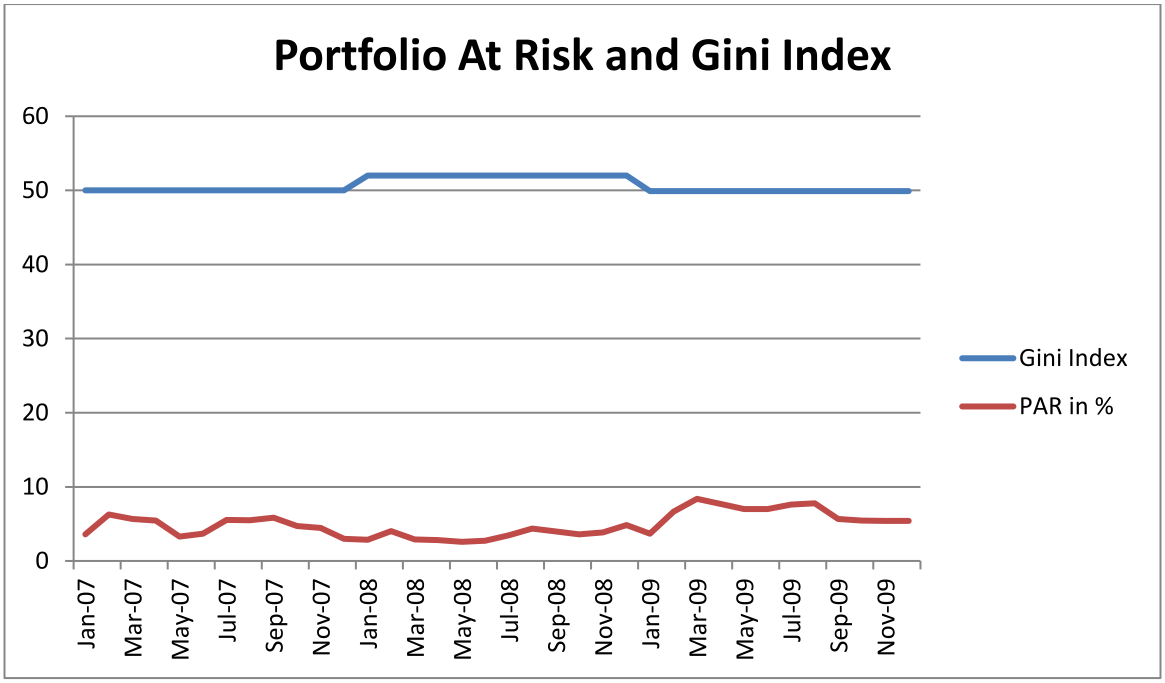
Figure 5. Adapted from "Network PAR by Region," by Microfinance USA, 2010, *Performance Monitoring Report*.

Gini Index.

In addition to analyzing the independent variable of portfolio quality and GDP, the study evaluated portfolio quality using the Dominican Republic's Gini Index of income distribution. Again, recognizing that successful microfinance institutions rely on the repayment of client loans and a strong portfolio quality, through comparing measurements of Microfinance DR's levels of Operational Self-Sufficiency collected during the years of 2007, 2008, and 2009, and the Dominican Republic's annual Gini Index figures during the same time period, the research will better identify whether the portfolio quality of an MFI influences microfinance effectiveness.

Analyzing the relationship that exists between the two variables, fluctuations between the Dominican Republic's Gini Index and PAR levels appear to possess a relationship. For example, as illustrated by Figure 6, the decrease in Microfinance DR's PAR levels at the end of 2007 through the end of 2008, appears to be followed by a decrease in unequal income distribution in 2009. Recognizing that an ideal PAR measurement falls between 2% and 5%, in 2008, when PAR levels in the Dominican Republic were at their healthiest, the Gini Index of income distribution reads 54. However, in the year following the decrease in PAR levels, the Gini Index score decreased from 54 in January of 2008 to 50 in January of 2009.

Figure 6.



The decrease in income distribution indicates an increase in equal income distribution and a possible covariation between the two variables. Furthermore, the average PAR level in 2007 equaled 4.91%, a level erring on the higher end of the desired scale, and was followed in 2008 by an increase in the Gini Index from 50 in January of 2007 to 54 in January 2008. Therefore, the increase in income distribution indicates a decrease in equal income distribution and again suggests a possible covariation between the two variables.

Sustainability and Effectiveness

As discussed throughout the literature review, unsustainable MFIs largely jeopardize the communities they intend to help through adopting poor development practices and placing at-risk clients in danger of further poverty. Therefore, globally, MFIs have made it a top priority to reach levels of organizational sustainability to ensure the continuation of the organization as well as the safe-guarding of clients. Indicating a healthy MFI, OSS measurements of 100% or greater emphasize that an MFI is able to cover its costs through operating revenues and has thus reached operational sustainability.

Microfinance DR's OSS levels have fluctuated significantly between January of 2007 and December of 2009. For example, in January of 2007, Microfinance DR's OSS levels equaled 53.3%, however, in May of 2008, OSS levels measured 100.3%. Interestingly enough, although a few dates reach 100% operational self-sufficiency, for the majority of the three years, OSS levels have fallen below ideal and have reflected the existence of unsustainable microfinance practices within the Dominican Republic. Further emphasizing this reality, the average annual OSS rating for 2007 was 69.38%, the annual average for 2008 was 86%, and in 2009, the annual average was 75.63%. Therefore, while Dominican PAR levels might be the lowest in Microfinance USA's network, the OSS levels found in the Dominican Republic represent a disconnect between costs being accrued and revenue being generated.

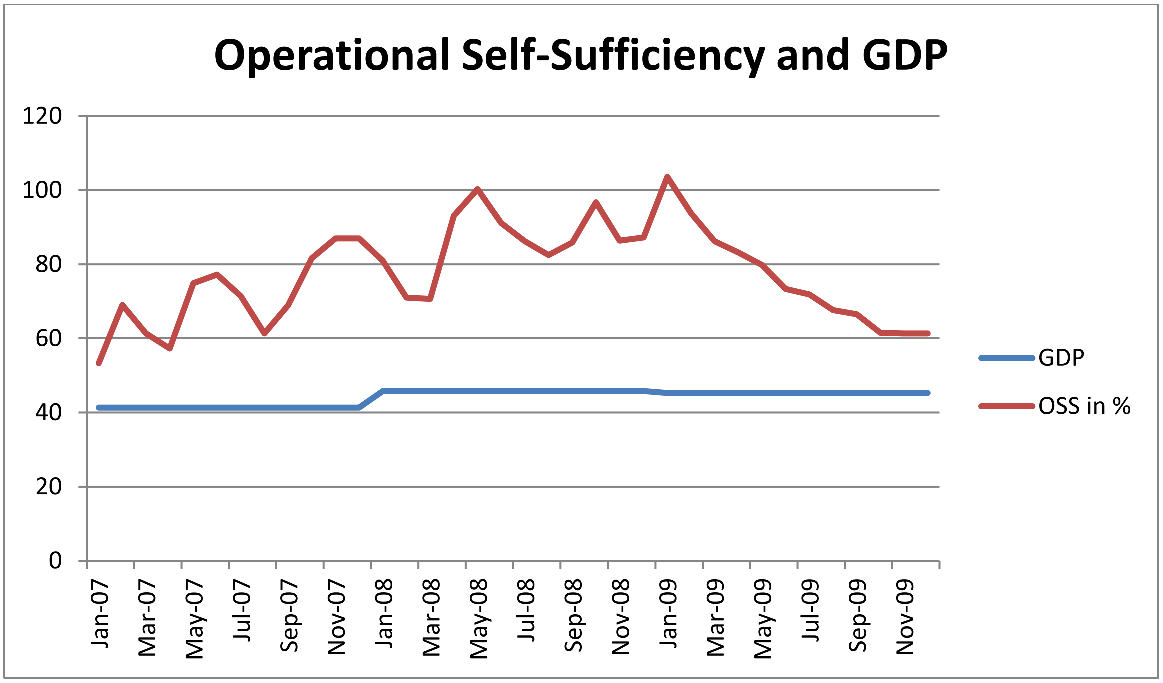
Several contextual explanations exist as to why Microfinance DR's OSS levels have remained low over the past three years. Again, as discussed with FSS and PAR, the Dominican Republic's decrease in trade and tourism has influenced all sectors, macro and micro, of the country's economy. However, Richard Rosenberg (2009), Senior Advisor to the Research and Market Intelligence Team at the Consultative Group to Assist the Poor (CGAP) offers an additional reason. Claiming that "on average, sustainable MFIs are much larger than the unsustainable ones," Rosenberg references the organization's size as an influencing factor to sustainability (para. 3). Furthermore, Rosenberg states that a small MFI with 2,000 clients cannot be treated in the same manner as an MFI with 2,000,000 clients (para. 3). Recognizing that Microfinance DR has a client base of nearly 8,000 borrowers in the Dominican Republic as of 2010, and therefore qualifies as a small MFI, the influence of size should be taken into consideration when evaluating an MFI's sustainability.

GDP.

The fourth hypothesis to be evaluated concerns the relationship between the independent variable of sustainability and the dependent variable of GDP. Recognizing that successful microfinance institutions rely on the ability to ensure that enough revenue is being generated in order to outweigh the operational costs of an MFI, it was hypothesized that, when an MFI experiences an increase in measurements of Operational Self-Sufficiency, the effectiveness of an MFI also increases. Through linearly organizing the 36 monthly measurements of OSS collected in the Dominican Republic between 2007 and 2009, Figure 7 illustrates the relationship between the country's GDP and Microfinance DR's portfolio quality.

Analyzing the relationship that exists between the two variables, as found with the other relationships, major fluctuations between the Dominican Republic's GDP and OSS levels appear to be synchronized. According to Figure 7, as OSS levels increase, GDP also increases. This fluctuation can be observed in 2008, where the average annual OSS level rose from 69.38% in 2007 to 86% in 2008. Similarly, GDP experienced an increase from the 2007 measurement of $41.32 billion to the 2008 measurement of $45.79 billion. This same pattern is repeated in 2009 when OSS dropped from the 2008 annual average of 86% to 75.63% in 2009.

Figure 7.



Again, just as OSS experienced a decrease, GDP in 2009 dropped from $45.79 billion in 2008 to $45.24 billion in 2009. Therefore, similar to the relationships identified between GDP and FSS and, GDP and PAR, the relationship between OSS and GDP appears to be related. Although the data is not strong enough to prove a direct correlation between the two variables, it may indicate that measurements of OSS and GDP are impacted by similar external factors.

Furthermore, as it is beneficial to identify how an MFI is doing in comparison to other MFI's around the globe, Microfinance USA provides the following graph which illustrates average levels of OSS across the network. Although 100% OSS had been reached in March of 2009, network OSS levels through January of 2010 emphasize that many MFIs are struggling to cover operational costs and are unable to qualify as sustainable organizations.

Figure 8.

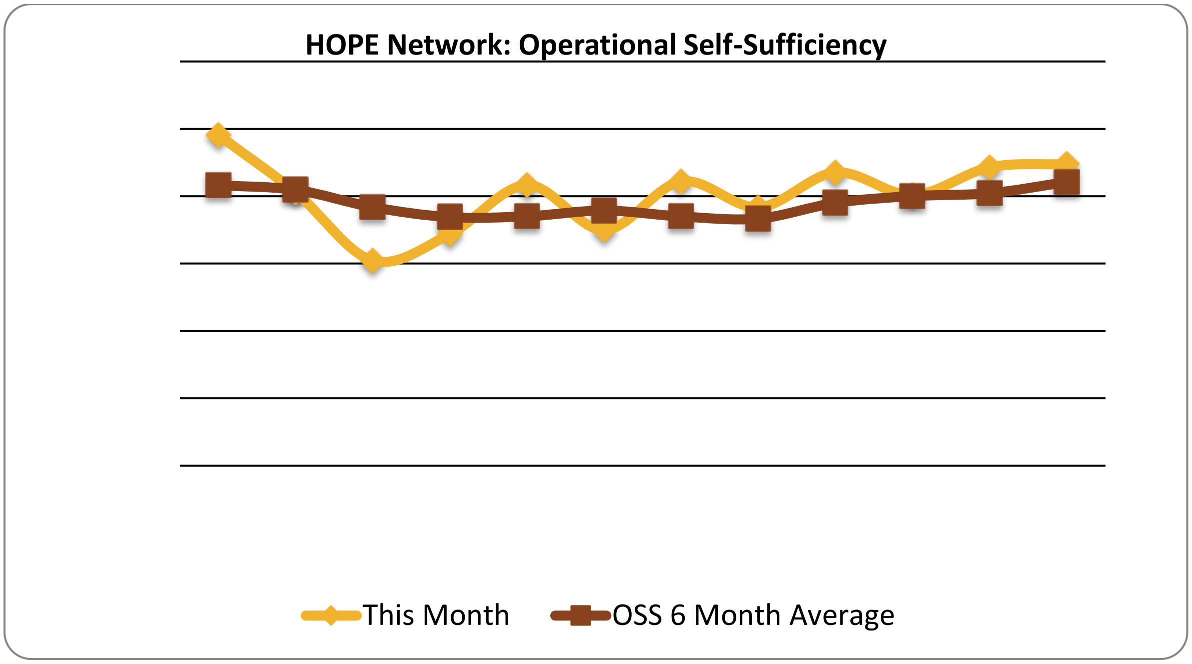
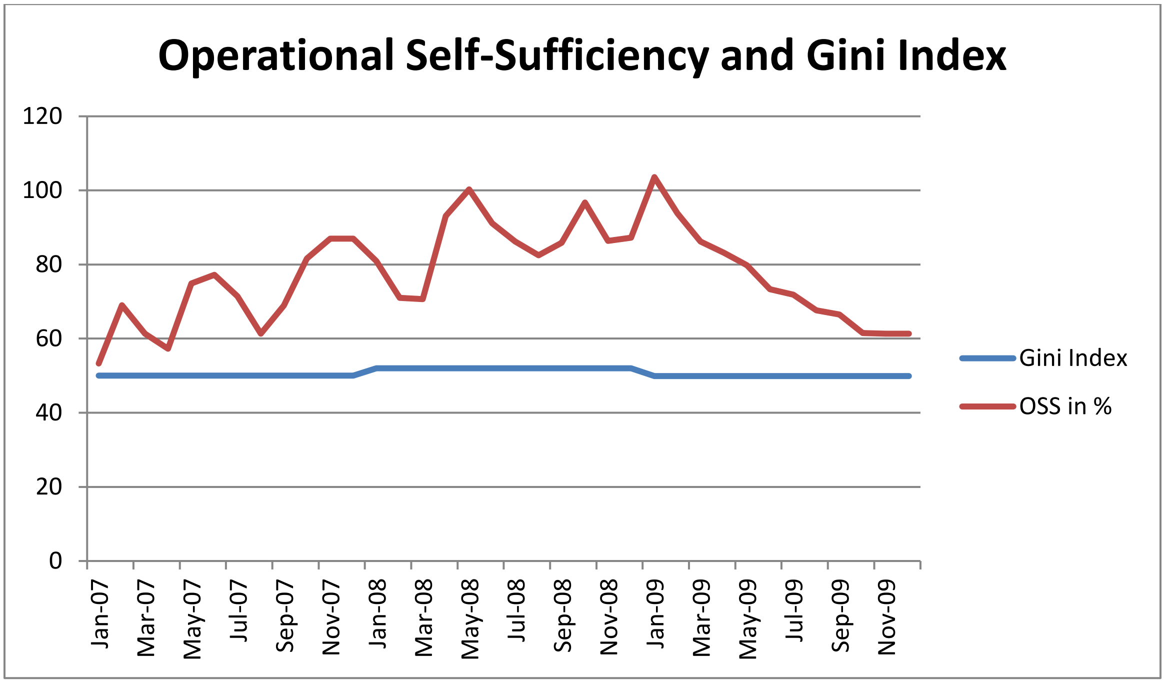


Figure 8. Adapted from "Microfinance USA Network Statistics," by Microfinance USA, 2010, *Performance Monitoring Report*.

Gini Index.

In addition to analyzing the independent variable of sustainability and GDP, the study evaluated sustainability using the Dominican Republic's Gini Index of income distribution. Again, recognizing that successful microfinance institutions rely on the ability to ensure that enough revenue is being generated in order to outweigh the operational costs of an MFI, through comparing measurements of Microfinance DR's levels of Operational Self-Sufficiency collected during the years of 2007, 2008, and 2009, and the Dominican Republic's annual Gini Index figures during the same time period, the conducted research will better identify whether the sustainability of an MFI influences microfinance effectiveness.

Figure 9.



Analyzing the relationship that exists between the two variables, as found with the previous variables, fluctuations between the Dominican Republic's Gini Index and OSS levels appear to possess a relationship. For example, as illustrated by Figure 9, the increase in Microfinance DR's OSS levels at the end of 2007 through the end of 2008 appears to be followed by a decrease in unequal income distribution in 2009. Recognizing that an ideal OSS measurement equals 100%, in 2008 and the beginning of 2009, when OSS levels in the Dominican Republic were at their healthiest, the Gini Index of income distribution reads 54. However, in the year following the decrease in OSS levels, the Gini Index score decreased from 54 in January of 2008 to 50 in January of 2009. The decrease in income distribution indicates an increase in equal income distribution and a possible covariation between the two variables. In addition to the relationship evidenced between the Gini Index and OSS levels in 2008 and 2009, the average OSS level in 2007 equaled 69.38%, a level erring on the lower end of the desired scale, and was followed in 2008 by an increase in the Gini Index from 50 in January of 2007 to 54 in January 2008.

Therefore, the increase in income distribution indicates a decrease in equal income distribution and once again suggests a covariation between the two variables.

Summary

Through analyzing the relationship between the Dominican Republic's Gross Domestic Product and the independent variables of profitability, portfolio quality, and sustainability, it is evident that a relationship, although weak, exists between the variables. While this correlation does not indicate that that the independent variables have a direct influence on the country's levels of GDP, it is clear that both the dependent variable and the independent variables relate to one another through external economic influences.

While recognition that a relationship exists between GDP and the independent variables is useful, it is more beneficial to recognize one reason as to why GDP does not appear to be directly influenced by measurements of MFI performance. After interviewing microfinance analyst and Microfinance USA's technical advisor, Sarah Rutt, in regards to the relationship of MFI performance influencing a nation's GDP, it became clear that microfinance analysts do not expect to see microfinance practices have a large influence on the macroeconomics of the Dominican Republic for another several years. As Microfinance DR's loan cycles have only been in operation since 2005, the impact of microfinance has only been exposed to the immediate generation of borrowers and therefore an extended influence of microfinance on clients remains to be measured (S. R., personal communication, April 15, 2010).

Furthermore, through analyzing the relationship between the Dominican Republic's Gini Index of income distribution and the independent variables of profitability, portfolio quality, and sustainability, it becomes evident that a covariation exists between the variables. However, while the dependent variable and the independent variables appear to be related, the limited scope of

FSS, PAR, and OSS data available from Microfinance DR place limitations on generalizations that can be inferred from the results as an increase in data points would allow for a more detailed multi-variate analysis to take place.

Unable to exhaustively test the independent variables of profitability, portfolio quality, and sustainability, against every indicator of microfinance effectiveness, it is plausible to assume that microfinance profitability, portfolio quality, and sustainability, are not the only factors influencing the decrease of the Dominican Republic's annual Gini Index of income distribution score. Therefore, while a positive relationship between the independent variables and microfinance effectiveness is beneficial in recognizing the influence of Dominican microfinance, the positive relationship between the Gini Index and independent variables alone, does not determine microfinance effectiveness within the Dominican Republic.

Microfinance: Client Impact

As Microfinance USA and Microfinance DR have found social indicators of microfinance effectiveness to be both costly and time-consuming to track and measure, the organizations have resorted to measuring microfinance performance using such indicators as FSS, PAR, and OSS levels. However, as these measurements do not necessarily reflect the impact of microfinance on the client and on his or her family, the organizations rely on additional information to determine the personal and societal impact of microfinance on clients and their communities.

Indentified as a tool to measure microfinance effectiveness from a client's perspective, personal client accounts provide MFI organizations with information as to how a client has been individually impacted by microfinance. Using these accounts to add social and cultural context to microfinance policies and procedures, Microfinance USA's marketing team relies on Microfinance DR staff and interns in the Dominican Republic to interview clients and gather essential information about their experiences. Furthermore, Microfinance USA relies heavily on client stories and feedback in order to market the impact of microfinance to communities and donors within the United States. To illustrate the valuable information Microfinance USA and Microfinance DR gain from meeting with borrowers and recording the clients' experiences with microfinance, a description of one such client account has been included within this study.

Situated in the Dominican Republic, Francois Misena and her husband, a pastor, moved from Haiti to the town of Ulloa to raise their nine children. Living in a small house constructed of cement blocks, Francois Misena explains to Microfinance DR representatives that, prior to receiving a loan from Microfinance USA, her "family was desperately poor and lived in a small wooden house that was not nearly as reliable as protecting her small children from the elements" (*Client Profile*, para. 1). Although the house appears cramped with eleven individuals living under its roof, Francois explains that the cement home is "secure and safe," and that she would have never been able to acquire such a luxury without her loan.

Currently working as a vendor in the Dominican Republic, Francois describes that before becoming aware of microfinance, she used to walk up and down the streets only selling bread. After receiving her first loan, Francois explains that she was been able to add an incredible variety of goods to her inventory, including sandals and shampoo products. Having repaid her first loan, Francois has had the opportunity to take out an additional four loans through Microfinance DR and she explains that this experience has supplied her with enough money to provide each of her children with an education, adequate clothing, and nutritious food. Beyond receiving and repaying the microfinance loans, Francois has had the unique opportunity to save $13.50; a dream and accomplishment that is rarely realized for the majority of poor women living within the Dominican Republic (*Client Profile*, para. 1).

Unlike the organizational understanding of microfinance provided by calculations of Financial Self-Sufficiency, Portfolio At Risk, and Operational Self-Sufficiency, client accounts display how a microfinance loan has the ability to influence the borrowers, through providing him or her with greater business opportunities and the option of saving, but also the borrower's family. Without the small loan Francois received from an MFI, her children may not have been able to attend school, eat well, or be clothed. A small loan drastically altered the loan recipient's life as well as the life of her family members and surrounding community members. For example, friends and neighbors now had a greater variety of goods to choose from when purchasing from Francois and the community's future was more secure as a result of youth education. Recognizing the extensive impact of microfinance on one individual, Microfinance USA and Microfinance DR rely heavily on client stories and reactions to microfinance in order to determine best practices for the organizations and to identify areas where improvement is needed.

Prescriptive Recommendations

Having identified several factors influencing the effectiveness of microfinance in the Caribbean, it is beneficial to recognize the significance of the research in relation to the larger context of U.S.-influenced Caribbean microfinance. Through providing three initial recommendations as to how the United States government and U.S.-based NGOs should improve their methods in relation to supporting and establishing MFIs within the Dominican Republic, and three additional recommendations addressing the study's findings, MFIs and microfinance investors will be better equipped to deliver effective and valuable microfinance services to the deserving poor.

Recognizing that stakeholders, such as the United States, have failed to adequately define the meaning of poverty in the past, a first prescriptive recommendation involves governments establishing a definitive vision for the poor (Westley, p. 27). Currently, very few MFIs maintain a specific concept as to what practices a sustainable and successful MFI must adopt and therefore, MFIs are unable to provide clients with the most effective services. As unsustainable practices lead to high delinquency rates, microfinance investors, recognizing the instability of the institution, become discouraged and clients lose faith in the MFI. Furthermore, without an exact definition of poverty or method of alleviation, MFIs supported by governments are unlikely to receive necessary funding as governmental administrations change hands (Westley, p. 27). U.S. governmental agencies and NGOs must determine the meaning of poverty and further specify the purpose of MFI programming in order to effectively influence the economic environment of the Dominican Republic.

Furthermore, a second recommendation to improve the effectiveness of U.S. influence in the Dominican Republic is to heighten the availability of technical assistance to organizations in MFI management and operation. While various NGOs offer technical assistance to Dominican Republic MFIs, “the institutions are not willing and/ or able to pay for this assistance which is generally considered too expensive anyway” (Findley, p. 22). Therefore, through improving technical assistance programming and making it more affordable, the United States can drastically improve MFI performance and operation throughout the Caribbean.

Thirdly, in order to better influence microfinance efforts in the Dominican Republic, the United States needs to further identify and understand the characteristics of MFI clientele. As identified by the Grameen Foundation USA study, the majority of MFIs in the Dominican Republic do not use “specific targeting methodology to gauge poverty levels of clients.” Instead some institutions collect socio-economic data on their clients, such as family size, gender, level of education, and estimated monthly income, while others solely "[assess] the clients' capacity to utilize and repay the loan" (Findley, p. 28). In addition, because institutions are not systematically documenting client information or "monitoring changes in their clients' businesses or general condition," funding is applied ineffectively and individuals within the poorest economic sector of the Caribbean are suffering (Findley, p. 28). As the majority of MFI clientele in the Dominican Republic are female and live in rural areas, the United States needs to enforce MFI documentation to ensure that the greatest needs of the community are addressed.

In light of the presented data, while the combined efforts of Microfinance USA and Microfinance DR have effectively reduced the levels of poverty within Dominican communities, Financial Self-Sufficiency, Portfolio At Risk, and Operational Self-Sufficiency data clearly indicate that room remains for improvement. Recognizing that every microfinance organization possesses loan products that fail to best meet the needs of clients and struggling communities, three additional recommendations for improvement as a result of the data findings will be presented to encourage the implementation of effective microfinance practices among American and Dominican MFIs and NGOs.

As a result of literature reflecting a need to improve the availability of technical assistance to organizations in MFI management and operation, and PMR data reflecting a need to improve microfinance product effectiveness, a first recommendation to improve microfinance effectiveness focuses on the need to evaluate and assess microfinance product implementation and effectiveness. Identifying that a poorly integrated microfinance product produces inefficiencies for microfinance organizations and poses a threat to struggling entrepreneurs, the Consultative Group to Assist the Poor (CGAP) has provided MFIs with a tool that will allow organizations and managers to conduct a detailed cost analysis that will uncover the true costs and benefits of various microfinance services offered to clients (Helms & Grace, 2004, "Introduction"). Referred to as Product Costing, this tool helps MFI managers make difficult decisions about microfinance product design and raises awareness of costs associated with each product, reveals hidden MFI costs, instills cost-consciousness in staff, and uncovers inefficiencies within the organization (Helms & Grace, "Introduction"). Through offering two distinct methods on how to conduct a product costing exercise, the CGAP Product Costing tool provides step-by-step instructions as to how MFIs may best use their resources to most effectively meet organizational and client needs.[9]

As a large portion of microfinance work is performed by loan officers in the field who are then expected to accurately record readings of FSS, PAR, and OSS for later use in PMR, a second recommendation to improve microfinance effectiveness involves the implementation of an internal auditing system. Providing an in-depth look into the satisfaction rates of a loan officer's clientele as well as his or her performance as a member of an intricate and larger organization, internal auditing is necessary for an MFI to detect and avoid errors in processing loans, to prevent inadequate information from entering MFI tracking systems, to identify non-compliance with loan policies, and to prevent counterfeit collateral and employee fraud (Austria, 2010, para. 5). Certainly, individuals chosen to audit MFIs internally face a difficult job as they are often given the responsibilities of testing for compliance to systems, policies, and procedures throughout the organization; reporting findings on organization risk; and recommending steps to

[9] Having the opportunity to assist Microfinance USA in laying the foundation for a product costing exercise to take place towards products offered to Microfinance DR clients in the Dominican Republic, I have witnessed, first hand, the benefits of conducting such an exercise for both the MFI implementing and overseeing the exercise, as well as for the MFI's client basis. Identifying organizational inefficiencies promotes microfinance effectiveness and allows donor funding to be applied towards areas identified as demanding the most need.

moderate risks (CGAP, para. 5). While significant obstacles exist in performing an effective internal auditing exercise, the benefits of internal auditing for the MFI and clients significantly outweighs the costs.

In addition to conducting a product costing exercise and insuring that the loan officers, also known as the hands and feet of the MFI, are following the organization’s policies and mission, a large need remains for MFIs to form and adopt best practices that will best serve Dominican clients and best reflect the needs of the community. Whether adopting best practices involves administering programs promoting effective product development or providing loan officers with skills that will allow them to minister to the needs of developing communities while holding individuals accountable to loan payments, microfinance best practices insure the sustainability and longevity of an MFI.

According to CGAP (2010), MFIs are able to sustain best practices through the incorporation of a few basic principles created to guide microfinance development. First, CGAP encourages all MFIs to continue to build institutional capacity on the ground, arguing that the main priority for MFIs is to provide clients with necessary services at a retail level. CGAP also encourages MFIs to place MFI clients at the center of organizational decisions. As the goal of microfinance is to lift struggling individuals from absolute poverty, the vision and ultimate goal of a microfinance institution should be to determine what best meets the needs of the client population. Additionally, CGAP advises MFIs to continue to extend their influence on the poor while remembering that achieving financial sustainability must remain an organizational priority. Certainly, as recognized in the study, without sustainability, an MFI is unable to properly care for clients and has the potential to place already impoverished borrowers into a more vulnerable situation (GDRC, “CGAP”).

Furthermore, MFIs are encouraged to improve the transparency of their institution in order to ensure accountability between managers and loan staff as well as improve the quality of microfinance services for clients. Also, while microfinance focuses largely on the impact of financial services on the client population, microfinance donors play a significant and inimitable role in the continuation of microfinance, especially for non-governmentally associated MFIs. Microfinance donors will continue to support transparent MFIs that focus their mission on reaching the poor, identify and implement best practice methods, and continuously strive for sustainability (GDRC, “CGAP”). Successful MFIs are incessantly seeking new ways to improve practices and procedures and creative approaches to poverty alleviation. As described by Microfinance USA’s President Peter Greer, like anything else, microfinance practices must evolve with the times to ensure the clients are receiving effective and sustainable microfinance services (P. G., personal communication, April 15, 2010). Through identifying areas in need of improvement, MFIs, including Microfinance DR, can continue to offer effective microfinance services to impoverished clients around the globe.

Conclusions

In conclusion, through incorporating past research on U.S.-influenced microeconomic development and through conducting a study on microfinance effectiveness, this study identified that microfinance institutions effectively empower the marginalized and create sustainable business opportunities for loan recipients within the Dominican Republic. Having analyzed historical and contemporary influences of the United States on the Caribbean economy and having identified a recent evolution of the nations’ compatibility, this project recognized the United States as a strong influence on the Dominican economy. Receiving permission to access internal data from Microfinance DR, the study on microfinance effectiveness determined that a relationship between the economic indicators of Growth Domestic Product and the Gini Index of income distribution, and the independent variables profitability, portfolio quality, and sustainability, exists and provides further evidence of the positive influence of microfinance practices within the Dominican Republic.

Additionally, through providing analysis on the influence of gender and including a client profile from Microfinance DR’s database, the strong need to include social indicators in determining microfinance effectiveness was illustrated. Lastly, recognizing that inconsistencies exist in determining the influence of microfinance within the Caribbean, this project proposed significant recommendations as to how microfinance institutions can better influence and support the impoverished throughout the Dominican Republic.

Recognizing the existence of limitations within the conducted study, suggestions for future research include gathering information and data on the social impact of microfinance and organizing a holistic study to determine the ability of microfinance to effectively alleviate an individual’s physical and emotional poverty. In addition to including a social component to the study of the effectiveness of microfinance, an additional recommendation for future research includes conducting a similar study to that performed in this paper at a later time period. Identifying that a relationship exists between microfinance effectiveness and the independent variables, it would be beneficial to determine if the influence of microfinance within the Dominican Republic increased as time went on. Through conducting this research in the future, the effectiveness and impact of microfinance practices within the Dominican Republic will be better understood.

As emphasized by Nathanael Goldberg (2005) in “Measuring the Impact of Microfinance: Taking Stock of What We Know,” no matter how effective microfinance is found to be in one region, no one MFI “can be said to definitely answer the question of whether microfinance works as a poverty-reduction strategy on a global basis” (p. 46). However, Goldberg adds that it would also be difficult, after recognizing the many positive instances and effects of microfinance, to not identify microfinance as an “effective tool” for the eradication of poverty (p. 46). Therefore, while the results from the study on Microfinance DR cannot be generalized to include all MFIs across the globe, the study remains beneficial as it allows readers to not only recognize the difficulties in measuring microfinance effectiveness, but to also acknowledge that, regardless of the monthly levels of Financial Self-Sufficiency, Portfolio At Risk, and Operational Self-Sufficiency, clients such as Francois Misena and Milan Tapia are acquiring a better standard of living for themselves and their families.

Furthermore, as a result of sustainable microfinance practices and the dedication of organizations such as Microfinance USA and Microfinance DR, individuals world-wide are experiencing feelings of accomplishment as they receive and pay back small loans, grow their local businesses, and develop the communities around them. Truly, although microfinance effectiveness remains difficult to measure, one thing is clear; in order to provide the most effective influence to the Dominican Republic, the United States must encourage MFIs to seek sustainable policies, to implement best practices, and, above all, to recognize that if they ever hope to contribute to the alleviation of global poverty, they must place microfinance clients at the center of their mission.

Appendix A

Microfinance DR's Socioeconomic Survey

1. Do you have your own home?
    1. Yes, with title
    2. Yes, without title
    3. No
    4. Rented
    5. Loaned
2. What material is your home made of?
    1. Walls of block, cement roof and cement floor
    2. Walls of block, zinc roof
    3. Walls of wood, and roof of zinc
    4. Walls of plywood, zinc or carton&stone, roof of zinc
    5. other materials
3. What is the floor made out of?
    1. Dirt
    2. Cement
    3. Cement and dirt
    4. Other
4. How many people live in the house?
    1. 1 or 2
    2. 3 or 4
    3. 5 or more
5. Age of the Children
    1. At least one of the kids has not completed 1 years.
    2. At least one of the kids has not completed 3 years but all have at least 1 years.
    3. At least one of the kids has not completed 6 years, but all have more than 3 years.
    4. At least one of the kids has not completed 18 years, but all have at least 6 years
    5. All of the kids are 18 or older
    6. Doesn't apply
6. All of the children with less than 1 years of age have had all vaccinations?
    1. Yes
    2. No
    3. Doesn't apply
7. Education of the children?
    1. Attend a public school
    2. Attend a private school
    3. Receive some type of education but informally
    4. Don't receive any type of education
8. Where do family members go to receive medical care when sick?
    1. Private clinic
    2. Public hospital/social security
    3. Informal doctor (witchdoctor)
    4. Community health promoter

5. Nowhere

9. When was your last Pap?
    1. Less than 6 month ago
    2. Between 6 months and 1 year
    3. More htan 1 year but less than 2
    4. Never have had one
    5. Doesn't apply
10. What is the highest level of education you have achieved?
    1. Basic education-1st-4th grade
    2. Basic education—5th-8th grade
    3. completed high school
    4. Some technical coursework/degree
    5. Does not read nor write
11. Have you received training in business operations?
    1. yes
    2. No
12. Have you received vocational training?
    1. Yes
    2. No
13. Do you have a business?
    1. Yes
    2. No
14. Where do you have your business?
    1. In my own locale (owned)
    2. In a rented space
    3. In the home
    4. Ambulatory
    5. Doesn't apply
15. For how long have you been in business?
    1. Less than 1 year
    2. Between 1-2 years
    3. More than 2 years
    4. Doesn't apply
16. How many paid employees do you have?
    1. 1- 2
    2. 3 -4
    3. 5 or more
    4. None
    5. Doesn't apply
17. How much are your monthly sales in the business?
    1. RD$ 5,000 or less
    2. RD$ 5,001 --RD$ 10,000
    3. RD$ 10,001-- RD$ 15,000
    4. RD$ 15,001 -- RD$ 20,000
    5. More than RD$ 20,000
    6. Doesn't apply

18. What is the monthly family income? (Including husband and children)
    1. RD$1,500 or less
    2. Between RD$ 1,501 and RD$ 2,500
    3. Between RD$ 2,501 and RD$ 4,500
    4. Between RD$ 4,501 and RD$ 6,500
    5. More than RD$ 6,500
19. What is the main source of income for the family?
    1. the own business
    2. salaried work
    3. Money transfers from family
    4. there is no regular family income
20. how many meal per day does the family eat?
    1. one
    2. twice
    3. three
21. Do you have savings?
    1. Yes
    2. No
22. Where do you keep your savings?
    1. In a commercial bank
    2. In the Bank of Hope
    3. In a cooperative
    4. At home
    5. With a family or friend
    6. I don’t have savings
23. What is the amount of your savings?
    1. Less than RD$ 500
    2. Between RD$ 500 and RD$ 1,000
    3. Between RD , 001 and RD$ 2,000
    4. Between RD , 001 and RD$ 4,000
    5. More than RD$ 4,000
24. With whom do you have debts?
    1. Moneylender
    2. development organization
    3. friend and/or family
    4. other
    5. I don’t have any debts.
25. Do you participate in problem-solving in your community?
    1. Always
    2. frequently
    3. Sometimes
    4. Never
26. Do you pay for electricity service?
    1. yes
    2. No
    3. sometimes

    4. I don’t have this service

27. Do you pay for water?
    1. yes
    2. No
    3. sometimes
    4. I don’t have this service
28. Do you pay for telephone service?
    1. yes
    2. No
    3. sometimes
    4. I don’t have this service
29. Do you attend church?
    1. yes
    2. No
    3. sometimes
    4. there is not church
30. Which church do you attend?
    1. Catholic
    2. Protestant
    3. Other
    4. I don’t attend
31. Do you read the bible?
    1. Yes
    2. No
    3. sometimes
32. Do you pray?
    1. Regularly
    2. No
    3. Sometimes
33. What do you consider your situation will be in the future?
    1. better
    2. the same
    3. worse

Appendix B

The Grameen Bank's ten indicators include:

1. The family lives in a house worth at least Tk. 25,000 (about $380 at current exchange rates) or a house with a tin roof, and each member of the family is able to sleep on a bed instead of the floor.
2. Family members drink pure water of arsenic free tube-wells, boiled water or purified water.
3. All children in the family over six years of age are all going to school or have finished primary school.
4. The minimum weekly loan installment of the borrower is Tk. 200 or more.
5. The family uses a sanitary latrine.
6. Family members have adequate clothing for everyday use, warm clothing for winter, and mosquito nets to protect themselves from mosquitoes.
7. The family has sources of additional income, such as a vegetable garden, fruit-bearing trees, etc., so that they are able to fall back on these sources of income when they need additional money.
8. The borrower maintains an average annual balance of Tk. 5,000 (about $75) in her savings accounts.
9. No member of the family goes hungry any time of the year.
10. The family can take care of its health. If any member of the family falls ill, the family can afford to take all necessary steps to seek adequate healthcare (GFUSA, p. 11).

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