THE HEAD OF THE MOUSE: DOMINICAN MICROENTERPRISES' FORMAL AND INFORMAL CREDIT DECISIONS

By

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To all the Dominicans I met, especially the friends and family I left
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Why do Dominican microenterprises use informal credit in the form of **prestamistas** (moneylenders) when lower interest rate, formal credit is available? To answer this question I conducted interviews with primarily 3 formal microfinancial institutions, 5 **prestamistas**, and 18 microenterprises in Los Alcarrizos, the Dominican Republic.

My research indicates there are at least six reasons microenterprises prefer **prestamistas** over formal creditors. From the least supported to the strongest supported reason, they are (1) unawareness of formal credit options; (2) preferences for the flexibility and informality of **prestamistas**; (3) loan caps that prevent them from receiving more credit from formal sources; (4) lack of requisites for formal loans; (5) the small amounts **prestamistas** are willing to lend; and (6) the rapidity of the **prestamistas** in disbursing the loan. The first four reasons are the obstacles microenterprises face in obtaining formal credit; when they cannot access it, their next viable option is the **prestamistas**. The last two reasons are the **prestamistas’** advantages they offer microenterprises over formal sources of credit; these two reasons are also the primary reasons microenterprises use **prestamista** credit.
In other words, microenterprises primarily use *prestamistas* because of the utility *prestamistas* provide over formal sources of credit. Additionally, the data presented on *prestamistas* in this thesis compose one of the first formal studies conducted of these unique microenterprises, dispel some of the stigma surrounding them, and explain the rationale behind their comparatively high interest rates.
CHAPTER 1
INTRODUCTION

Thesis Question and Hypothesis

This thesis examines why microenterprises use more expensive informal credit in the form of *prestamistas*¹ instead of cheaper formal credit. On the basis of readings and conversations with knowledgeable professionals, I assumed from the outset that microentrepreneurs are aware of formal credit sources and aware of the higher interest rates charged by private moneylenders. The assumption was that microentrepreneurs are aware of the higher cost of informal credit as well as the availability of lower cost options. The overall premise was that microentrepreneurs are economically rational and choose the informal credit source because of some perceived greater economic benefit not necessarily visible to outsiders. The purpose of this thesis is to explore those other factors.

Overview of Microenterprise Development

Broadly defined, a microenterprise is a small business in terms of people (often the proprietor is the sole worker), capitalization (perhaps less than US$500), scale (serving small markets or with relatively low levels of production), and economic stability (in the Dominican Republic the majority close after less than three years of operation) (FondoMicro 1992, 1998, 2000, 2003; Dávalos 2006). In spite of these modest indicators, microenterprises are an important part of every economy, especially in Latin America. FondoMicro’s national surveys in the Dominican Republic indicate microenterprises account for nearly 20% of gross domestic product and employ nearly one fourth of the economically active population (2003).

Because of these data and other similar information, public and private institutions throughout the world have begun concerted efforts to support microenterprises. The importance

¹ Usually translated as “loan shark” or, to a lesser extent, simply “moneylender.”
of microenterprise development programs have risen in prominence and achievement, evidenced by the 2006 Nobel Peace Prize awarded to Muhammad Yunus and his creation, the Grameen Bank, for the role played in poverty alleviation and economic development by encouraging microenterprises.

Research Methodology

Research Site

The Dominican Republic was an ideal research site because of a number of advantages. One important consideration was the presence of the research NGO FondoMicro. Beginning in 1992, the NGO conducted extensive research on microenterprises and credit sources, including annual quantitative surveys on micro- and small businesses. Additionally, Dominican culture fosters entrepreneurship, as will be explored later.

The research site was narrowed to Los Alcarrizos, an urban area just outside of Santo Domingo. The socioeconomic status of the residents of the area appeared to be relatively homogenous, which diminished the differences that might be found among microentrepreneurs of different economic resources. The area’s proximity to the Santo Domingo was an advantage in that I had quick access for my interviews with microfinancial institutions.

Data Collection

A combination of the snowball sampling method and the semi-structured interview approach was an appropriate methodology for this exploratory study. Interviewing microentrepreneurs about their personal finances was difficult, especially with extralegal prestamistas. Additionally, this approach allowed the data from initial responses to be incorporated into successive interviews, broadening the range of topics and answers I could pose to succeeding respondents.
The snowball sampling method provided a sense of solidarity in the initial stage of each interview, which made the respondents more comfortable and more responsive. A semi-structured interview allowed a freer flow of conversation and lent itself to the exploratory nature of the questions. A typical interview would comprise a series of introductory topics and, in-between broached topics, I would encourage respondents to take the conversation wherever they wanted.

**Additional Research Aim**

Another research aim was to begin to fill the void of academic knowledge regarding *prestamistas*. While the informal moneylenders supplied over one fourth of all credit received by Dominican microenterprises, they have rarely been the topic of research in the Dominican Republic, or elsewhere (FondoMicro 2003). In addition to the data collected from *prestamistas* regarding the thesis question, the interviews with them also attempted to gather information about their own activities, backgrounds, and rationale in determining interest rates charged to microenterprises.

In the passing references that exist in the literature, these moneylenders are often vilified because of their “usurious” interest rates and predatory practices, as referenced in the beginning of Chapter 4. This additional research aim seeks to shed light on this perception to determine whether or not their notorious reputation is warranted.

**Thesis Format**

In the course of data collection I interviewed three categories of people interviewed: those who provided formal sources of credit, those who provided informal credit sources, and microenterprise-credit users. The thesis is divided into an introductory/orientation section, three middle chapters recounting the interviews and data collected from each category of people, and a conclusive chapter which includes recommendations and suggestions for future research.
The thesis question restated is: why do microenterprises use *prestamistas* when cheaper formal credit is available? The guiding premise is that microentrepreneurs are economically rational and use *prestamistas* because they derive some greater economic benefit. In the next chapter, I will discuss the theoretical frameworks and perspectives that I used to give meaning to the information that surfaced in my interviews.
CHAPTER 2
THEORY AND CONTEXT OF MICROENTERPRISES

Why Microenterprises?

Microentrepreneurs are considered an important component of economies and are a focus of many economic development policies and programs. This chapter is a brief orientation to the microenterprise field and the specific context of Dominican microentrepreneurs. It begins with the broader scope of why microenterprises warrant academic study and theoretical perspectives in this field. The latter part narrows the discussion to the Dominican Republic and to the reality of being a microentrepreneur there.

Microenterprises in Theory

Over many years of research the academic realm of microenterprise development has experienced an evolution of terms, ideologies, and perspectives formed. Even now there are debates about the basic meaning of the term “microenterprise” and the types of undertakings to which the concept can be applied. I will give a brief sketch of the history of this evolution to clarify the meaning of the terms and concepts used in this thesis.

Demographic Beginnings

After World War II, developing countries around the world experienced high population growth rates as birth rates rose and mortality declined, causing the economically active population to grow (Davis 1969). In Latin America this boom coincided with economic policies encouraging rapid industrialization which had a strong urban bias (Bulmer-Thomas 2003). The sum of this was a high rural-urban migration throughout Latin America with a massive labor surplus. Whereas in 1955 over half of all Latin Americans lived in the rural countryside, within 20 years nearly two thirds were urban dwellers, and many of those without employment (ECLA 1981). The outward manifestation of this was the growth of shantytowns and self-employment.
The economic activities within these shantytowns were termed “the informal economy” and bridged an important gap: PREALC estimates from 1960 to 1989 show the urban informal economy consistently comprised only one third of the economically active population (Portes and Schauffler 1993).

**Perspectives on the Phenomenon**

**The marginal classes**

The earliest analyses of this phenomenon emphasized the distinction between formal and informal economies. Those in the informal economy were seen as the marginal classes, excluded from participating in the modern sector (Nun, Marín, and Murmis 1967). Whereas the formal economy was characterized by economically rational choices and an efficient market-system, its popular counterpart was seen simply as a survival mechanism of the exploited classes (PREALC 1981). Thus, the informal sector was also viewed as having little or no capital, a heavy reliance on (unpaid) familial labor, and operating at the edge or outside of the law. Operating from this paradigm, there was a call to create employment in order to provide opportunities for these workers to participate in the formal economy (Bulmer-Thomas 2003).

**The extralegal sector**

Hernando de Soto is generally identified with the other theoretical perspective influenced by classical economics. In this perspective the informal sector is not composed of marginal subsistence workers but rather dynamic, small-scale entrepreneurs who are just as rational as the actors of the formal sector. In this other view, the difference between the two is attributed to excessive government regulation which effectively prohibits informal entrepreneurs from legally competing with other established businesses (De Soto 1989). The informal economy is the popular response to these regulations; although deprived of legal status and subject in some cases to punitive sanctions, these entrepreneurs continue to exist alongside of the participants in the
formal economy, and are often functionally related to it. Recommendations in this framework include a dismantling of regulations to allow free-market forces to work (De Soto 2000).

**Portes and Shauffler’s theory**

In recognition of the internal contradictions between the theoretical perspectives associated with these two camps and of the frequent lack of empirical data, Portes and Schauffler (1993) propose a more moderate approach that takes into account the complexities surrounding the informal economy. In line with other perspectives on the informal economy throughout the world, the Latin American informal sector is defined as unregulated income activities where similar activities of their peers are regulated by the state. However, instead of being composed exclusively of either marginal workers or small-scale entrepreneurs, this perspective recognizes the complexity of activities in this sector, from domestic workers to small factories, and the sometimes sharp distinctions between this heterogeneous mixture (Bernería 1989). Another dichotomy with which this perspective disagrees is the isolation of the two sectors; in many instances the formal and informal economies are closely integrated and interdependent.

**Microenterprises in Economic Development**

Perhaps what galvanized the international development community into seriously considering the economic activities of the informal economy were two key events: De Soto’s publication of *The Other Path* and the international acclaim awarded Muhammad Yunus’s Grameen Bank in Bangladesh. Both of these men underscored the untapped economic potential of the world’s poor bottled up not by their own ignorance or lack of rationality but because of the lack of basic necessities: small amounts of capital, basic legal frameworks, and fair market access. Thus, the microenterprise development field began with the ideal of encouraging small-scale entrepreneurial endeavors.
**Evolution of Microenterprise Development**

In the beginning of the microenterprise development field many resources were devoted to training microentrepreneurs in basic business skills (i.e. accounting, marketing, management) as well as vocational skills (i.e. handicrafts, farming, sewing). Eventually though, it became clear that the number one issue microentrepreneurs faced was lack of credit. The Association for the Development of Microenterprises (ADEMI) was one of the first organizations to offer no-frills credit, which meant no training in business skills or any other form of aid – strictly small loans at market rates. Since its success, as well as the success of similar programs, many microenterprise development organizations and policies now focus on providing microentrepreneurs access to credit. Thus, in practice, the field of microenterprise development has evolved into the field of microfinance.

**The Informal Economy versus Microenterprise Development**

Although the field of microenterprise is generally discussed within the framework of the informal economy, it also spills outside of those boundaries; not all microenterprises are illegal or extralegal. Not all microenterprises fall outside of the formal economy and not all in the informal economy are microentrepreneurs. In spite of the plethora of research about microenterprises, it is still difficult to find a convincing, shared definition of “microentrepreneur.” A self-employed plumber with his apprentice who unclogs a sink is a microentrepreneur, but is a cleaning lady who comes twice a week with her daughter to mop the floors? A woman in the countryside who paints wooden signs for local farmers to advertise their produce has a microenterprise, but a young woman in the city who owns a graphic design firm faces a very different set of circumstances.
Theoretical Framework Modification for Thesis

A self-employed person faces some of the same obstacles and challenges as a neighbor who runs a formal business. Their legal status is different, but not their basic challenges. A pragmatic solution, at least for this thesis, is to extend Portes and Schauffler’s framework to include under the term microenterprise legally constituted businesses that operate at the same scale as their informal counterparts. Specifically, the research on microenterprises presented here is restricted to businesses that employ ten or fewer people, regardless of whether they fall into the formal or informal sector.

The Head of the Mouse: Microenterprises in the Dominican Republic

Dominicans have a saying: I’d rather be the head of a mouse than the tail of a lion. In other words, it is better to be the head of your own small venture than just an employee of a large business. Among others, Murray (1974, 1996) has documented the entrepreneurial proclivity of Caribbean natives and especially Dominicans. This culture of fostering small businesses coupled with a relatively advanced microenterprise development sector made the Dominican Republic a conducive site for researching microenterprises.

Economic Significance of Microenterprises

One important microenterprise development resource in the Dominican Republic is the research NGO FondoMicro which began publishing quantitative national surveys in 1992. The surveys from 1992 until 2000 illustrate the importance of microenterprises to the Dominican economy: they consistently produce around 20% of gross domestic product and consistently employ a fourth or more of the economically active population. In 2000, more than half of all microenterprises were headed solely by women, and another 10% were headed jointly by a

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2 Prefiero ser la cabeza del ratón que la cola del león.
couple; male-owned microenterprises were the minority. These surveys also reveal that the microenterprise was the primary source of income for the owner(s) (FondoMicro 2003). Microenterprises are not only an important component of the Dominican economy but they are vitally important to the microentrepreneurs themselves.

**Microenterprises in Los Alcarrizos**

As stated, Latin America shifted from being primarily a region of rural dwellers to a predominantly urban one, and the Dominican Republic was no exception to the urban trend that took place in the last 20 years in the rest of Latin America. Of its now roughly 9 million inhabitants, 30% live in Santo Domingo alone; altogether, nearly half of the population resides in just four major urban areas (Economist Intelligence Unit 2006). Concerning microenterprises, in 1999 there were 353,325 microenterprises throughout the country, with a third in the Santo Domingo region (FondoMicro 1999).

These demographics are very helpful in understanding the overall context of microenterprises in the greater Santo Domingo area. But what does Los Alcarrizos look like? I have no idea how many people inhabit it, but they number in the thousands. The town (for lack of a better word) begins at the Duarte, the Dominican “interstate” connecting its two principal cities Santo Domingo and Santiago. Its densely packed buildings and inadequate streets make you feel as though you were in a poorer neighborhood of the capital itself. But instead of finding the end of the neighborhood, it stretches in all directions. I do not know how far from the Duarte the town extends, but it is many miles. To travel by a good taxi from where I lived to a church in the middle of what would “downtown” Los Alcarrizos was almost twenty minutes in light traffic on Sundays.

The town is more or less organized in blocks, but there are no straight streets. Along the principal avenues (those paved and almost large enough for three cars abreast) are the two- and
three-story commercial buildings: funeral homes, banks, talleres\(^3\) of all kinds, private academies, microenterprises with the owner’s home above them, apartment complexes, auto parts stores – the list is endless. On the side streets nearer the main roads are the less-capitalized colmados\(^4\), smaller private academies, beauty salons, and the upper-end residences. Further away are the unpaved roads, the washed-out gullies along which live the majority of Los Alcarrizos.

I spent many evenings with my friend Sara at her aunt’s house on one of these roads. The family (usually about eight or nine of us) sat on their 5x10, barred porch watching neighbors stroll by, listening to the grandkids playing in the street, endure the group of old men sitting in the middle of road underneath the shade tree carrying on, and enjoying the relative quiet. Nights were another world altogether. My friends did not want their “gringo” walking alone after dark and, if I stayed too late, they would walk me to the main road so I could walk along it the two more blocks home. The colmados usually had a few people drinking and dancing\(^5\) during the week, but on the weekends it seemed all of Los Alcarrizos was out in the street enjoying the cool night and dancing it away.

This is where I spent most of my time and where I conducted most of my research. All five of my prestamista interviews were in Los Alcarrizos, alongside their microenterprise clients. The headquarters for the microfinancial institutions were, of course, in Santo Domingo proper, but they were well-represented in Los Alcarrizos with branch offices. Nearly everyone knew microcredit providers ADEMI, ADOPEM, PyME BHD, PROMiPyme in BanReservas, FDD, and/or ASPIRE by their prominent branch office on the principal avenue(s) of the town. This thesis begins with the interviews of four of these formal credit sources in Chapter 3.

\(^3\) “Workshops” in a general sense.

\(^4\) A small Dominican grocery store.

\(^5\) Some colmados (and perhaps most) also serve alcohol and have tables to encourage patrons to pass time there.
CHAPTER 3
FORMAL CREDIT PROVIDERS

To understand why microenterprises would use prestamistas I needed to know about the alternative: formal credit. This chapter summarizes the interviews conducted with institutions FondoMicro felt were representative of the formal microfinance realm in the Dominican Republic. In all of my interviews I followed the semi-structured style, as reflected by the range of topics covered in this chapter. With each institution – ADOPEM, PyME BHD, FDD, and PROMiPYME – the conversation led in different directions, the interviews emphasized different points, and I asked better questions as my own knowledge increased. The primary purpose of this chapter is to identify the formal options available to microenterprises, to underscore the relative ease in obtaining formal credit, and to provide the contrast to the prestamistas presented in the following chapter.

I present the three primary interviews individually and in chronological order as well as a short interview with the state agency, PROMiPYME. The chapter closes with an analysis of the microfinancial institutions and possible answers to the question of why microenterprises would use informal credit instead of them.

Banking on the Poor: ADOPEM

Introductions

Sra. Marina Ortiz of FondoMicro gave me a list of credit providers working in the microenterprise development field. One that immediately intrigued me was La Asociación Dominicana para el Desarrollo de la Mujer (the Dominican Association for Women’s Development), a.k.a. ADOPEM. Just two years prior the NGO (as The Woman’s Bank, El Banco de la Mujer) had succeeded in converting itself into a private bank and had enjoyed continued success. With such an interesting story it was the first formal credit source I went to.
I had not done my homework and was unaware ADOPEM was accustomed to researchers and their endless questions, so I was surprised by the bank’s willingness to accommodate me. In a very short period of time I had an interview scheduled within the next few days at their main branch near the heart of the capital. The landmark I use to remember their location is the bright red pickup truck hanging on the side of the tall Santo Domingo Motors building.

ADOPEM’s primary offices were housed in a plain but pleasing single-story building painted a unique shade of marble-swirl aqua blue with ‘ADOPEM’ in gold letters. All together, its appearance was so unobtrusive that my driver and I passed it once or twice before calling to get the secretaries’ oft-used landmark – the large-bay automotive shop directly across the street.

Secretaries/receptionists hold a very unique place in any organization and I was constantly reminded of the plaque I once saw on one’s desk: do you want to talk to ‘the man in charge’ or ‘the woman who knows what’s going on?’ Upon walking into the building the receptionists immediately spotted this out-of-place gringo and sailed to my rescue. After a phone call or two I was told I would not have to wait long.

In the meantime I was trying to take in all the details of my first opportunity to see what an microfinancial institution actually looked like. I am not sure what I was expecting, but I found out this one looks like a bank. To the left of the landing area was a teller’s desk and a waiting area that would have been at home in nearly any bank. The noise was constant but muted as the crowd, virtually all women, transacted their business. To the right were a number of desks with well-dressed women at their terminals or helping two women through a loan process. In fact, I remember realizing that I was nearly the only male in that large office space that day (hence, ‘the Woman’s Bank’).
Shortly I was ushered into the boardroom and offered coffee and water while waiting for my contact. Sra. Carvajal was very cordial and patient as I tried to explain exactly what I was doing there. However, the combination of my less-than-perfect Spanish and nervousness at my first formal interview with a bank hindered my communication. After a while, she smiled and excused herself to get me some information I might find helpful. She returned with financial data which was very helpful, but more importantly with the vice-president of the bank, Lic. Mercedes Canalda, who spoke English very well. Operating in my native tongue helped me feel more at ease and we quickly lapsed into a comfortable conversation around ADOPEM.

**ADOPEM’s History**

Around 1981 or so the NGO The Woman’s Bank was formed to provide credit to microenterprises. However, under Dominican law it was severely restricted with respect to financial matters. Wanting to expand their financial services to better serve those who used them, the NGO began considering transforming itself into a private, for-profit institution. After sweeping financial reforms in the late 1990s, it was very difficult to even begin a bank. With the difficulties presented by the law, it was more feasible to buy an established bank and operate under its charter. The NGO found a suitable institution and bought it, renaming it ADOPEM. She told me that at the close of just two years they should finalize their 26th branch office with about 110 credit officers throughout the country. However, the NGO still exists as a separate entity working with microenterprises but is phasing out its financial operations and is passing its clients on. It continues to offer technical training and means of establishing client credit to help them graduate to the next phase of actually receiving credit. At the time of our interview, 15,000 Dominicans remained on the NGO’s books as loan recipients; the majority had been passed on to the bank. The bank’s total number of current customers had surpassed 40,000 customers.
ADOPEM’s Loan Process

Lic. Canalda, though vice-president of the bank and very busy, gave me quite a bit of her time to talk to me at length about how a client solicits and receives a loan (to the point we kept the boardroom tied up for a few minutes past a scheduled meeting with representatives from the Central Bank, coincidentally her former employer). Besides giving me her time, she also gave me the time of one of their credit officers in the Los Alcarrizos branch office by having him lead me to any of their clients I chose to interview. Although the client could refuse the interview, all were kind enough to talk to me at length.

As she explained, and as I later witnessed, the target population for microenterprise financial institutions is not accustomed to dealing with formal banks, loan applications, etc. The institutions have to solicit customers; they cannot wait for their clients to come by themselves. For example, when I was at the Los Alcarrizos branch office, there hung a large, hand-drawn map of the town divided into “beats” for individual loan officers. Fortunately, it was not a long walk to the beat of the credit officer who led me to talk to some of ‘his' clients. He took me to the colmado-fantasia of Sra. Esperanza. The primary room of her home did double duty as her storefront with a curtained off bedroom at one end. The other room of the house was a kitchen. Besides being poor and bereft of a car, she was also somewhat incapacitated and unable to walk without aid. If she would have had to solicit a conventional loan she would have had twice the hardship of traveling to and from the bank to complete the necessary processes.

Thus, I experienced what the initial phase of the loan process resembles: canvassing the neighborhood, finding the microenterprises (not all of which are as obvious as an advertised colmado-fantasia), and explaining what ADOPEM does and offers. It seems, though, the majority of ADOPEM’s clients learn of its services from referrals by previous customers and not from the credit officers going door-to-door.
The officer may simply leave a leaflet highlighting their services or may be lucky enough to find someone who would like to immediately apply for a loan. In this case the ADOPEM officer quickly pulls up a chair, whips out a short questionnaire and proceeds to conduct a succinct interview gathering some personal information, some financial estimates, and a quick reference or two. For those who are interested but would like more time to consider, the officer leaves the application form to be filled out at the applicant’s leisure to be picked up at a later time.

As Lic. Canalda told me, the bank does not really want material collateral – the capacity of the microentrepreneur to repay should be the loan’s collateral. A skilled interviewer can discover the internal workings of a microenterprise with a few key questions and create a proxy balance sheet by which to judge the potential client’s standing. After collecting a few supporting documents, ex. cellular payment receipts, rent contract, etc. to verify some of the information, the loan officer is back on the street again.

When the credit officer has a completed application in hand, it is in their best interest to enter it electronically in the branch system as quickly as possible. Lic. Canalda’s goal for ADOPEM from the client’s submission of the application to disbursement of money is two days. If the period is longer than seven days from the date on the application until disbursement, the officer is penalized by receiving less of a bonus than usual. To expedite the process, an approval committee in each individual branch meets every morning via the Internet to approve or reject the loan applications recently entered into the system; this reduces paper shuffling and the risk of physically misplacing an application. As soon a client is approved, a bank representative calls the

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1 See Appendix A for an example of ADOPEM’s leaflets.

2 See Appendix B for an example of ADOPEM’s questionnaire.
microentrepreneurs to notify the applicant of their approval and ask how the microentrepreneur would like the money disbursed: cash, check, ADOPEM debit card, or direct deposit into an ADOPEM checking or savings account deposit. The only time an ADOPEM customer may have to come to the bank branch itself is to receive their loan.\(^3\)

This is a typical transaction for a typical loan amount, which is about 10- to 12,000 Dominican pesos.\(^4\) For larger amounts, there are a few other precautions. ADOPEM runs a credit check on all those who request a loan above RD$20,000. At RD$50,000 there is additional bank documentation, but without involving the potential client. For loans beginning at 5 million pesos there is some additional work required of the customer, ex. they have to open an account with ADOPEM, provide additional documentation, etc.

Within a week a credit officer returns to the client’s microenterprise to ensure the transaction went smoothly as well as to verify that the loan was invested in the business. If everything goes well, the client will repay the loan in a timely manner and then be eligible for another loan at a greater amount (if they were satisfied customers, of course, like Sra. Esperanza).

**ADOPEM’S Interest Rates**

ADOPEM has a very simple formula for determining what interest rate to offer their clients. The first determinate is the cost of funds for ADOPEM, i.e. how much the bank pays for external sources of funds from other banks, government programs, etc. Then there are the bank’s operating costs: salaries, expansion costs, regulatory compliance, etc. The last factor is the “spread” or the profit of ADOPEM which necessarily includes inflation. Thus, the example

\(^3\) I assume ADOPEM does not allow its credit officers to disburse the loans for security reasons.

\(^4\) The exchange at that time was approximately 33 to 1; therefore, 10- to 12,000 pesos would be about US$300 to 360.
given by Lic. Canalda may resemble the following: PROMiPYME lends ADOPEM funds at 10%; operating costs may be estimated at 16%; required return and inflation may combine to equal 8%; thus, the rate at which the bank may loan in this instance in time would be 34% per year or 2.83% per month. She said the average rate ADOPEM charges was about 3% per month, but may vary between 2.8% and 3.5% monthly.

For-Profit All the Way: PyME BHD

First Impressions

Interviewing ADOPEM had been a pleasure, and I was now anxious to speak with an representative from PyME to contrast the two practices and cultures. Although ADOPEM is officially a private bank, its basis is as a non-profit, non-governmental organization. PyME BHD began as a private bank and is part of the larger family of BHD Holdings. It would be interesting to compare the two.

For some reason, I had decided to take a risk and be my own chauffer, using my friend’s Mazda 626. I wound up in the industrial western part of Santo Domingo, trying to follow directions that had somehow become lost in (my) translation. At a different BHD branch (not PyME) I was directed to the exact opposite end of the industrial area; at least I was on the right street.

PyME BHD’s primary branch is housed in a rather imposing office building for its neighborhood. After parking in the garage beneath the building and heading into a couple of wrong offices and meandering around on vacant floors, I was directed to the side annex; of course, it was accessible only by leaving the main building and entering through the entrance that had “PyME” prominently displayed above it. I was immediately struck by the feeling of being in an information technology office, as opposed to the “bank look” of ADOPEM’s reception area.
Instead of a teller’s window and a lobby, there was a small waiting area and a receptionist immediately upon entering, with cubicles and glass-walled offices abutting the area.

By this point of my research stint I was becoming familiar with the feeling of being the “odd man out” and had even become amused by the questioning looks of secretaries and others who wondered what I was doing there but were too polite to ask. I smiled and waited to be shown to the general manager of PyME BHD who had granted me time for an interview because of my introduction by FondoMicro.

I did not wait for very long when Sr. Andrés Santos came bursting through the front doors. The receptionist quickly pointed me out and I was met with a warm smile. He ushered me through the back door to yet another room that further reinforced the feeling of an IT operation: a room the size of what would be a small factory floor with filing cabinets, yet more cubicles, and a glassed-in mezzanine to which he directed me, chatting amiably about the Dominican Republic and my stay so far as we climbed the stairs. Having overcome my inhibitions in my linguistic shortcomings, we conversed in Spanish; it was fortunate I was more confident in my abilities, because he had expected to hold the meeting in Spanish and was counting on me being competent in the language.

**PyME’s Orientation**

“The intention of PyME BHD is to offer traditional financial services to untraditional customers…[We are] serving a market niche usually served by prestamistas, family, and friends at unusually favorable prices,” he told me as a way of introducing the bank. He also looks at the microenterprise development sector as a social service by helping to generate employment and alleviating poverty. “We want to call attention – and investment – to the micro[enterprise] segment, to strengthen microenterprise infrastructure,” he said, not sounding unlike my other interviews with FondoMicro or ADOPEM.
However, PyME’s perspective had yet another facet: “PyME is an intermediary – a gateway – for the ten other companies [of BHD Holdings] with which it operates…As the [microenterprise] grows, BHD can answer all needs: expanding internationally, insurance needs, offshore banking. We are trying to create loyalty and ensure they utilize our entire range of financial services…[We are] developing a relationship with the client – as the client grows, we will serve their future needs.” Although the daily operations of PyME may not differ significantly from other microenterprise financial institutions, as described below, the orientation of PyME within the BHD family may represent an important, if subtle, difference in the approach and practice of historically private banks versus the perspective of non-profit and government-affiliated institutions.

**PyME’s Loan Process**

The initial step in the loan process, as described by the president, is to increase awareness of the services PyME offers. The bank’s marketing strategy is to advertise by radio, to pass out glossy leaflets throughout the city, and most importantly to have credit officers visiting prospective clients door-to-door. Each officer is assigned an area of responsibility who regularly walk their route, finding new businesses, following leads given by other clients, and revisiting other microenterprises to encourage them to solicit a loan with PyME.

If a business owner is interested in receiving a loan, the officer quickly conducts an impromptu interview. I use the word ‘impromptu’ because the interview consists of not only the application form which the officer fills out according to the information given by the microentrepreneur, but includes implicit information as well: the officer observes the business,

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5 See Appendix C for an example of PyME’s leaflets.
analyzes the rationale of the microenterprise owner, and generally gets a feel for the business.\(^6\) Therefore, although each application may contain the same questions, the total package the officer finally submits to the loan reviewer includes additional information that s/he gathered quietly.

A solitary credit manager reviews the documentation to decide upon the appropriate action. If the risk of default for lending to a particular microenterprise appears high, the reviewer may require cosigners as collateral. As soon as the loan is approved, notification is sent to the BHD branch where it was originally submitted; in many cases, this branch will be where the PyME credit officer is, but it may be the microentrepreneur filled out the questionnaire privately and submitted it to another BHD office. The branch calls the microenterprise owner to come to the office to sign the necessary documents and receive the loan money. There are two methods by which PyME disburses the loan: by debit card, which functions like a card linked to regular account, able to be used at an ATM or perhaps a retail outlet that accepts cards; or by depositing the funds into a savings account with BHD. In all cases, the goal of PyME is to have the money in the hands of the solicitor within five days of the original interview.

**PyME’s Interest Rates**

“The number one problem [for microenterprises] is access to financial services as they grow,” Sr. Santos explained to me. As presented previously, PyME’s position is integrated into the larger perspective of BHD Holdings. While BHD as a whole represents large enterprises, PyME does not have large business accounts. This general lack of experience and other indicators of success on part of their clients is a factor in determining interest rates for each of their microenterprise clients.

\(^6\) See Appendix D for an example of PyME’s application form.
Besides experience, there is the structure of the business, that is to say organizational structure, to add to the equation. He did not indicate the amount of the loan was a determinate, though he did point out the average loan is about RD$50,000, which PyME grants anywhere from thirty-two to thirty-six months to repay; however, as he pointed out, “Regardless of the loan time, microentrepreneurs want to quickly pay off obligations and usually do so before the required time.” After all other factors have been taken into account, the interest rate for an approved business somewhere between 2.5% to 4.0% per month – “less than the prestamistas,” he pointed out.

**PyME’s Clients**

Since he brought up the subject of informal lenders up, I posed my thesis question to the banker: why do some microenterprises continue to use prestamistas when institutions like PyME are available? He replied, “They may be ignorant of the financial institutions, or may not have time to contact the credit officers of said institutions…Prestamistas are an option, but many [microenterprises] don’t consider the costs, thinking only about the short term.”

He seemed surprised when I asked if prestamistas are microenterprises. He paused for a moment, pursed his lips, and seriously considered the question. Yes, he finally responded, yes, they are. However, PyME would not consider lending to them because they are competitors to the services PyME offers.

As of this point I had yet to interview a client of financial institution; I asked Sr. Santos for some typical businesses to whom PyME traditionally lent. He did provide some key illustrations, but moreover put the credit officers covering Los Alcarrizos at my disposal. The clients to whom they led me comprise an important piece of my research presented here. One of the more interesting paths opened to me was to discover a PyME client who was also a
**Microfinance Pioneer: The Dominican Development Foundation**

The Dominican Development Foundation (FDD) is primarily housed in a beautiful colonial building in the heart of old Santo Domingo. The Spanish architecture of low archways, broad stairways, and spacious, cool interiors was enchanting. It was easy for me to imagine a colonial magistrate sitting in the FDD director’s office, mulling over colonial decrees or the French threat on the western end of the island. These surroundings were, of course, in stark contrast to the ultra-modern office environments of ADOPEM and PyME, and rather underscored the different histories of the organizations. Whereas the two private banks were relatively newcomers to the field, FDD has a long history in the Dominican Republic and was among the pioneers of microfinance many years ago. I felt history surround me as I chatted with the director of FDD, Sra. Wiscovitch.

**Dominican Development Foundation’s Environment**

The FDD, in conjunction with ACCIÓN International and the United States Agency for International Development, offered the first microcredit program in the Dominican Republic. That project inspired the microfinance pioneer ADEMI which achieved international fame as a template for microfinance providers. Although ADEMI is a privately held company, many of the first credit providers were NGOs; as the microfinance sector evolved in the Dominican Republic, many private, for-profit institutions began serving this market niche as well.

Sra. Wiscovitch was very positive about the competition, believing it helps the clients get better rates: “One of [PyME BHD’s] VPs is a director in our board and this past Thursday we had a meeting...I told him, ‘You know, you’re getting pretty tough,’ and he said, ‘Yeah, [our rates are] going down.’ I said, ‘We’re lowering our rates – we’re not going to lose our clients to...
PyME.” Even though she related this with a smile, I knew she was quite serious about competitiveness.

She confessed a mistake made when she first joined FDD. With the FDD’s public-service orientation, she felt the mission of the FDD was to help the microenterprises grow to the point they could graduate to a private bank; when a client reached a certain point, FDD handed them over to another bank. “I realized I couldn’t grow the portfolio like that!” she told me. To counter this and to have a better mixture of risk exposure, FDD tries to retain its clients and now offers successively larger loans after successful repayment instead of referring them elsewhere.

Increasingly, microentrepreneurs are looking elsewhere already. According to her, when a microenterprise is small and does not have many financial options, you borrow from wherever you can. Later, when the business has expanded and is larger, you have more options and so begin to compare financial institutions. Perhaps reflecting on increased competition, she exclaimed, “It wouldn’t surprise me if the prestamista is looking into the credit bureau – wouldn’t surprise me at all.” (I later found out that some do.)

In this discussion of comparing interest rates, she made the distinction of microenterprises versus small- and medium-sized businesses: microenterprises’ needs are more urgent and so they are less conscious of the costs involved. FDD has to be very careful to not extend loans to those who would be unable to take them back since this would result in the going through the complicated and undesired collection process. In comparison she remarked, “Prestamistas have other ‘persuasive’ methods of recuperating their money,” she said, laughing. “We don’t do that - they’ll do anything to get back their money.”

**Dominican Development Foundation’s Loan Process**

I surmise FDD’s loan process involves more steps than its competitors because of this aversion to loan defaults. As with the other formal credit providers I interviewed, the process
begins with contacting potential clients. Although FDD’s credit officers go door-to-door and pass out fliers everywhere, the majority of their new clients come by referrals from previous ones. Step one is to fill out the application and return it to the local branch office. FDD checks the applicant’s credit bureau report and, if they have a good record, schedules an appointment at the applicant’s house or business. There, the credit analyst fills out another form in a question-and-answer session to create a working balance sheet of the individual’s finances, including personal and business expenses, all sources of income, as well as verifying the credit bureau’s report.\footnote{See Appendix E for an example of FDD’s application form.} The preferred collateral for FDD loans is a cosigner.\footnote{However, they will accept material collateral as well; see Appendix F for an example of their collateral form.} Thus, FDD must schedule a visit with the cosigner to verify they will be able to carry the loan should the client be unable to pay.

After this comparatively involved process, the credit officer returns to the local branch to submit the gather information. There is a rather simple preliminary detail: if the anticipated monthly payment will be more than 28\% of the person’s available funds (money left after deducting all expenses) FDD immediately rejects the application. Otherwise, the documents are sent to the proper authority: for loan amounts less than 30,000 pesos, this is the local branch; up to 75,000 pesos, it is regional supervisor or other upper management; more than 75,000 pesos, it is Sra. Wiscovitch.

Once the loan is approved, the central processing department prints the check, promissory notes, and any other legal documents to send back to the originating branch. The process comes full circle when the applicant, as well as the cosigner(s) (if applicable), come to the local branch to sign the forms.
After switching to a different processing system, FDD can no longer track the time for each application to complete this cycle, although Sra. Wiscovitch estimated it was five days – “too long.” She told me FDD was about to begin using a new system of PalmPilots which would eliminate the need for the central processing department, the current two-office system, and would shorten the turnaround time to two or three days at most.

**FDD’s Interest Rates**

FDD’s interest rates are very straightforward. For loans of 5,000 pesos (FDD’s minimum) to 20,000 the rate is 3.8% per month; from 20,000 pesos to 50,000 the rate is 3.5% per month; for loans greater than 50,000 pesos the rate is 3% per month. In relating this, Sra. Wiscovitch told me she had to switch between two different cultures: coming from the private banking sector to the microfinance sector, she had to adjust to speaking in terms of monthly interest rates instead of yearly interest rates. I knew the feeling of translating between two different worlds quite well.

**State Sponsorship: PROMiPYME**

My last interview with a formal credit provider was with the state agency *el Programa para las Micros y Pequeñas Empresas* (Program for Micro- and Small Businesses), a.k.a. PROMiPYME, housed in a small but gleaming office complex on Avenida 27 de Febrero. The reception area, which I enjoyed for quite some time, was the same stark white as the exterior but pleasant at the same time. By this time in my research stint I was used to receptionists being somewhat perplexed by my presence, but too polite to ask what exactly I was doing there. I was too young to be some institutional representative or foreign dignitary, and my Spanish was too bad to let me pass for an expatriate living in the Dominican Republic. I let her curiosity continue as I tried to figure out what the stream of Asians were doing passing through the double doors into the interior of the building. Unlike the receptionist, I did sate my curiosity and found the
government of Taiwan is involved with the Dominican Republic in microenterprise development programs as well.

After climbing upstairs and passing a number of posters exhibiting the microenterprises PROMiPYME had helped (there was an optometrist, a blacksmith artist, and, of course, a colmado, to name a few), I found my interviewees Señoritas Garitza and Farhilda sharing an office with two other women. Although they were involved in a specific aspect of PROMiPYME’s operations, they generously volunteered as much information as possible regarding the other aspects of the state agency’s activities.

**PROMiPYME’s Loan Processes**

The modus operandi of the state microfinancier is similar to the other formal sources I had interviewed: the process begins with filling out paperwork and an interview at the microenterprise site; the loan officer inputs the data electronically to be approved by the necessary authorities; and, once approved, the microentrepreneur comes by the branch office to sign the legal documents.

The details are interesting, though. The microfinance provider’s loan offices are housed in the state bank’s branches (Banco de Reservas or BanReservas, for short) throughout the country. I had witnessed this traveling to the Samana Peninsula: if the town had nothing else, they probably had a local office for BanReservas. Instead of actively soliciting clients, PROMiPYME waits for Dominicans to come to local office to fill out the loan papers. Another difference is the amount of time it takes to receive a loan. My interviewees estimated the average wait time to receive the loan funds was about a month, if all the paperwork was in order. When the loan does come through, it is deposited in a BanReservas account whereby the microenterprise can withdraw it from any BanReservas branch or ATM in the country.
Interest(ing) Rates

PROMiPYME has an advantage over other credit providers in word-of-mouth advertising: its capital is subsidized by the government and thereby offers ultra-low interest rates: 1.25% per month for commerce- and service-oriented microenterprises and 1.04% per month for manufacturing microenterprises. One percent interest a month is certainly talked about among microentrepreneurs. Alas, some things are too good to be true: the institution does not loan less than RD$50,000 at a time which, as I relate in Chapter 5, is far more than most microenterprises can afford. In order to still reach those who cannot take out a loan this large, PROMiPYME finances other microfinance organizations, like ADOPEM, who in turn lend smaller amounts of money.

Los Usureros – Usurers

One gem I received in this interview was an explanation of why microenterprises would use los usureros (an usurer or loan shark) over formal credit sources, without my even bringing up the topic. In explaining the purpose of PROMiPYME, one of them (I think it was Garitza) told me one of the purposes of the institution was to provide credit to microenterprises who only have the option of la usura. Together, Garitza and Farhilda explained el usurero: “[Garitza] For example, if you’re a microentrepreneur, and there’s a person who lives near your microenterprise who lends for 20% or 15%, or 40% monthly – it’s a higher cost.” “[Farhilda] la usura: informal loans by people who [undistinguishable]: they are easy, but they’re very expensive – easy, but expensive.” “[Garitza] Oh, there’s a lot of them!” They proceeded to give me a few humorous examples of the smiling sharks.

I posed the question of why microenterprises would use los usureros instead of formal sources. Again, I received a tag-team explanation:
[Garitza] It’s not because they prefer them; it’s really because of the need, like an emergency – it has to very important, you understand. For example, if you realize, ‘Oh, today is Tuesday!,’ and the truck is coming with the merchandise you need for your business to continue, but you don’t have the cash, and this truck isn’t going to give you credit – then, you need the cash and someone can provide it, but you have to pay a higher price. The cost will be very high. But if you don’t do it, you don’t have the merchandise to offer your customers either. [Farhilda] They’re fast…

They also indicated that, though la usura may require a type of collateral, the person may just sign the documents, not realizing what they are agreeing to.

Although someone higher in the chain-of-command nixed my access to any of PROMiPYME’s clients to interview, my conversation with Garitza and Farhilda provided a lot of needed information for understanding how the state agency fits in the arena of microfinance. After thanking the two women for their time, I walked back down the institution-white corridor and smiled at the receptionist on my way out. I could almost hear her picking up the phone to dial Gartiza.

**Summary of Formal Credit Provider Interviews**

The primary importance of the information presented here is in providing a contrast for the informal credit providers in the following chapter. Since their methods and rationale will be considered side by side in the analysis of that chapter, it is only necessary to highlight a few points in this summary.

The representatives of the formal institutions offered three reasons microenterprises would use prestamistas instead of formal sources of credit. One is that their informal counterparts are fast and can make loans to the client almost immediately. The second reason is that banks may have higher requirements than the microenterprise is able to meet. The third reason put forth by FDD, PyME, and PROMiPYME is the microentrepreneurs are unaware of the higher costs of the prestamista, or only consider their short-term financial position, not realizing the economic disadvantage in the long-run.
After surveying of the formal realm of microfinance, this thesis now proceeds to in-depth interviews with its informal counterpart: the *prestamista*. The analysis of Chapter four highlights the similarities and differences between the formal creditors presented here and the five informal credit providers I was able to interview.
CHAPTER 4
INFORMAL CREDIT PROVIDERS

This chapter on microentrepreneurs’ informal credit sources; in addition to data directly related to my thesis research, I include details and responses that serve to paint a picture of these informal moneylenders. The chapter begins with a review of references to prestamistas in the literature (underscoring the paucity of information about them), and then proceeds to the five individual interviews. As I used the same semi-structured interviewing technique as I did with all other interviewees, our conversations ranged from their routine lending practices to their families, or from their own financing to their personal history. An analysis of these prestamistas is at the end of the chapter and summarizes the rationale of the informal moneylenders as well as contrasting this rationale to formal credit sources. Because interest rates are at the core of this thesis, as well as at the heart of the prestamistas’ vilification, a special section on how they set interest rates is provided in some of the interview accounts and in the analysis section.

Introduction to Prestamistas in Research and the Literature

This section is a brief highlight of what is known and written about prestamistas in academic research and literature, in the Dominican Republic and elsewhere. Unfortunately, the observations are not based on in-depth studies of informal moneylenders but rather on indirect research associated with microenterprises, as well as anecdotal evidence, personal impressions, and evidence from secondary data sources.

For example, in a report on women’s participation in ADEMI in 1984, Reichmann noted: “The most common form of credit utilized by lower income Dominican women is the prestamista…this credit is generally used for survival purposes…Of course, the tradeoff for the microentrepreneur is the prestamista’s usurious interest rate” (Reichmann 1984a, 14-15). She writes these loans are for 10-20% a month for one to six weeks, but it is unclear how or where
she obtained these figures. Later, she notes that 14% of female ADEMI clients who participated in a questionnaire had borrowed from a local moneylender at 20% to repay the ADEMI loan. Reichmann’s inclusion of this information was to illustrate the hardship Dominican women must endure when a microenterprise scheme goes awry.

Itzigsohn makes two passing references to Dominican *prestamistas* in his book *Developing Poverty* (2000). In his section on microenterprise development policies, he notes that when microentrepreneurs lack access to formal credit mechanisms they must rely on informal sources “in the form of the neighborhood loan shark or of rotating saving or purchasing arrangements” (156). The second note is in recounting the difficulty in repaying formal loans on time: “Thus, many people often prefer informal mechanisms of finance, such as loan sharks, that allow for more flexibility in payment – although at the price of putting the microentrepreneur in deep indebtedness…” (161).

To provide an idea of their prevalence in Latin American communities: FondoMicro’s surveys indicate that *prestamista* credit is well-entrenched in the microenterprise sector. Between the years of 1993 and 2000, informal moneylenders surpassed NGOs as the principal sources of credit for Dominican microenterprises five out of eight years, supplying 27.8% of all credit received (FondoMicro 2003, Table I.7). A survey of self-employed workers in La Paz found that moneylenders provided 13.5% of their credit needs (Escobar 1989).

In *Women’s Ventures* (1989), Lycette and White provide a sketch of sources of informal credit, including moneylenders. They cite the above data from Reichmann in the Dominican Republic as well as noting the prevalence among women in Mexico (Chinas 1973), Nicaragua (Bruce 1980), and Peru (Reichmann 1984b) to use moneylenders or pawnbrokers. They list some general advantages of informal finance sources, ex. low transaction costs, rapidity of
disbursement. They later focus specifically on moneylenders and pawnbrokers, noting that “[u]nfortunately, they often charge very high interest rates – either because the costs of providing small-scale, flexible financing are high or because they are in the position of being able to extract monopoly profits” (Lycette and White 31). However, they give no indication of which explanation is more supported by empirical data. Summarizing the financing of the informal sector, the authors wrote: “Additionally, borrowing through informal systems often means doing business with a lender who maintains a virtual monopoly on credit resources. In this case, borrowers may be exploited and caught in a vicious cycle of indebtedness…however…in [certain] instances, the advantages of immediate disbursement of funds by the moneylender and the low transactions costs of the loan obviously outweigh the disadvantage of high interest rates” (Lycette and White 32).

Perhaps one of the most poignant illustrations in the literature is found in Peruvian Street Lives which devotes much of a chapter to the relationships between microenterprises and prestamistas. Entitled “Sharks: Loan and Credit Arrangements,” the chapter explains how market women need credit in order to survive in their economic activities, and what filling that need entails. When they cannot repay their wholesalers or unexpected expenses come up, “[t]hey turn to a second form of brutal indebtedness, [the prestamista]” (Seligman 2004, 111). The chapter goes on to link some “loan sharks” with narco-traffickers and money laundering. The section on prestamistas ends with a personal account of the author lending money to her research assistants and drawing a parallel between that situation and market women’s plight: “I felt awful, as if this economic transaction was violating our friendship and…our professional relationship as well. I was incredibly relieved when [they] paid me back…The experience made me realize what a violent and nasty atmosphere this system of indebtedness has created in the markets…” (114).
Thus, the terms oft-associated with *prestamistas* are: usurious, vicious, cycles of indebtedness, loan sharks, brutal, monopoly, exploited, drug-money laundering – at best, some of the other references not mentioned are sometimes neutral. Further, it seems the perspective is that moneylenders are a means of last resort, to be used only when all other means fail. However, except for the surveys mentioned, the data is indirect and anecdotal. Given the void of information, many questions beg to be asked: Are all moneylenders so evil? Are these cases isolated? Who are these people? Do all get their funding from such illegal sources as narco-trafficking?

To remedy this paucity of data, I present here five in-depth interviews with *prestamistas* operating in Los Alcarrizos. In addition to the overall thesis question, my aim was to discover the person behind the stereotype, how they interacted with their clients, and why their interest rates were so high compared to formal financiers’ rates.

**(Mostly) By The Book: Prestamista Patricia**

**An Altered Impression**

Sara and Juan are married and are also co-owners of Colmado del Sur in Los Alcarrizos. As they were the very first microentrepreneurs I befriended, I turned to them when I wanted to interview a *prestamista*. As I stated above, whenever I told people I planned on interviewing a *prestamista*, the initial reaction was surprise and sometimes an admonition to be cautious. Being somewhat cautious myself, I asked Sara if she could help me find a good *prestamista*, one who would not mind talking with me at length and who had a good reputation. I admit my surprise when she told me she had a very nice *amiga* (as opposed to an *amigo*) who would probably talk

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1. All names in this thesis are fictitious, aside from the representatives of formal institutions, to allow the individuals to remain anonymous.
2. A *colmado* is a small grocery store that sells small units of items, such as one cigarette or an individual disposable razor.
with me. Somehow I had received the impression (or formed it on my own) that all these 
prestamistas were hulking men.

Sara set a time for us to meet at the colmado. I knew this would be more difficult since my
digital recorder would pick up all the street noise from the busy intersection in front, but Sara
was not comfortable asking the prestamista to do it at the prestamista’s house, and my host
mother was scared to death of them from past experience. I finally maneuvered Sara into letting
me sit off to the side of the counter, just in the entryway to Sara and Juan’s one-room home
where a thin wall would block at least some of the sound.

My first sight of Patricia dispelled the image I had of prestamistas. She was an attractive
black woman, perhaps in her thirties, somewhat quiet and shy. In the beginning of our interview
she was cautious, not elaborating on many of the details. Perhaps because she could see that I
was genuinely interested in her work and how her business functioned, or perhaps because she
felt sorry for me and my poor Spanish, she opened up about a third of the way into our interview
and seemed more at ease.

The Business of Being a Prestamista

Over a cup of Café Santo Domingo, I asked her to take me step by step through the process
of how a microenterprise gets a loan, from the time they realize they need money until the time it
is in their hands. Since she does not have an office, they contact her on her cell phone. If she
does not know the person who is asking for a loan, the first order of business is to get a good
recommendation from someone else who will vouch for the person’s integrity. Patricia does not
necessarily have to know the person recommending the prospective client; she just needs
someone else’s word that the person is creditworthy.

Then comes the negotiating: the would-be borrower tells her how much they need and for
what period of time. The length varies according to the situation, but the usual amount for
Patricia is RD$20,000, though she would loan any amount below that. Then the two agree to what the collateral will be. She would prefer a cosigner, but if not, the collateral has to be worth substantially more than the loan. There is little negotiation after that. Patricia tells the person how much they have to pay determined by an inarticulated formula I analyze below. The interest rate is about 2% a day up to a month. After a month, the interest rate is a flat 7% per month.

It takes Patricia about two or three days to get the loan to the person, partly because of how she conducts her business dealings. First she has to fill out a contract, then take it to her lawyer to be notarized. Her banking accounts are with BanReservas; there, she orders a cashier’s check made out to the potential borrower, drawn against her checking account. She brings these two formal documents to the client, whether at their microenterprise or residence. Patricia and the client sign the legal agreement which stipulates the original loan amount, the rate of repayment, and the guarantee. With this done Patricia hands them the cashier’s check and the deal is done.

Friendly exceptions

This is how Patricia describes a typical transaction to me, but her dealings with Sara and Juan were different. There are probably two reinforcing reasons behind this. For one, Sara and Juan are both good friends with Patricia. Second, they are regular, i.e. frequent and loyal, customers. For Colmado del Sur, Patricia does not need legal, notarized documents nor explicit guarantees because her past experiences and current friendship take the place of those agreements. For a friend like Juan, Patricia also charges a better rate – between 1 to 2% a day, which is sometimes half her normal rate.

I wondered if the destination of the loan money would be a factor in the decisions of loaning or not and, if so, the rate charged. Patricia said she usually did not know the reason for the loan; if it was a microenterprise, it was more than likely related to the microenterprise itself,
like buying merchandise. However, the reoccurring theme, whether it was a microenterprise or an individual, was that the loan was needed to “resolve a problem.”

**Repayments and/or collections**

At this point in the explanation, the client would now have the money in their hands to resolve whatever problem there may be. The next step is collection. Patricia comes by periodically to collect the loan repayments according to how the customer wanted to pay. She told me she had a microenterprise that was paying her monthly, but the arrangement could be weekly or even daily. Patricia gives the client a receipt with each payment.3

At this point my itching question is what she did when someone did not pay her back. She laughed: “Ah, yes – this is the problem.” If the client did not pay her on the due date, she would wait five or six days. If there was still no repayment forthcoming, she would go to her lawyer who would send a notarized letter explaining the legal ramifications of defaulting on the loan. If after another week the situation was unchanged, Patricia and the lawyer would go together to the client and Patricia would claim the collateral agreed upon. Of course, if there were a cosigner, the focus shifts to collecting from the guarantor instead.

**Questions of aggression**

In all of this, any mention of aggression or even violence was conspicuously absent. ‘Conspicuously’ because that was often one of the first things people mentioned to me in talking about prestamistas. Trying to be polite, I asked general questions about incidences where other prestamistas used aggression or violence with their clients. Both Patricia and Sara looked at me strangely, frowning and pursing their lips, finally shaking their heads at my series of questions. Finally Patricia said if a prestamista had come to collect money at someone’s house and they

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3 See Appendix G for an example of this receipt.
would not answer the door, the *prestamista* might beat on the door and shout because the client
was trying to evade payment, but besides this, she did not know any examples of this type of
aggression.

Why were Sara and Patricia baffled by my questions associating moneylenders and
violence, considering virtually everyone else I spoke had heard of these stories (though perhaps
distantly, i.e. a friend of a friend had such-and-such happen to him)? Whether the stories are true
or elaborated upon, the two women should have at least heard of such. There are perhaps two
factors contributing to this. For one, Sara and Juan are from the rural countryside originally and,
though living in Los Alcarrizos for a number of years, they may not have come across accounts
of urban *prestamistas*. As for Patricia, her husband and brother-in-law are *prestamistas* as well,
so the social networks she is a part of may not vilify *prestamistas* or may dismiss the accounts so
that they do not circulate to Patricia.

**Family Life and Business**

Having been introduced to Patricia by Sara with the three of us passing a pleasant hour or
so discussing informal moneylending over *Café Santo Domingo*, I was now on friendly terms
such that Sara took me with her to visit Patricia in her home around the block from Colmado del
Sur. Her family’s house was quite nice, perhaps middle class for Los Alcarrizos. I think what
impressed me the most was having two lights in the living/dining room, instead of the habitual
one-light-source-per-room in the rest of the neighborhood homes where I went. I met Patricia’s
cute little girl, but was never able to see her infant because he was sleeping the entire time.
Occasionally with Patricia’s younger sister, we passed more than one cup of coffee chatting
about the neighborhood and the differences between English and Spanish. I never met her
husband because we always visited during working hours when he was at his office.
When Patricia first told me her husband was also a *prestamista*, I immediately assumed he had helped her launch her own moneylending business, but her start came about more by accident than anything else. About 5 years prior, Patricia had made small loan to a friend and made 20% profit on it – more than she made in a month of working. This tipped her off to the possibilities of the *prestamista* business. Whether her husband coached her thereafter or whether she developed the business by herself I was never able to deduce, although Patricia did tell me their practices were similar. Her husband was rude and surly, according to both Patricia and Sara, and Sara privately told me that he would not talk unless I bought him liquor first. Not really wanting to interview a drunk, nude (as Sara describes someone in only Bermuda shorts) moneylender, I courteously waved my Christian sobriety flag and declined.

Patricia is apparently a very busy woman, being the primary caretaker of the home and children, as well as having two part-time businesses. I am not sure how much of her time is used for her *prestamista* business, but she then had about 20 clients with a mixture of payment periods and about RD$250,000 in total capital. Besides moneylending, she formerly sold plate lunches (in a *comedor* – a small kitchen or diner) and was also an itinerant clothing vendor. In contrast, her husband’s moneylending business is his primary focus, replete with a formal office. As their activities are separate, so is their money: Patricia has her profits and losses, and her husband has his. I did not ask how the household expenditures were divvied up, though I am sure it would have made for a lively discussion.

**From Groceries in Brooklyn to Pawnshops on the Island: *Prestamista* Yanqui**

**First and Second Impressions**

In contrast to chatting with Patricia over Café Santo Domingo while baking in the heat, my interview with Yanqui was in his private (and, mercifully, air-conditioned) office. He rented the top floor of a small, two-story commercial building on the main avenue of Los Alcarrizos. On
first impression, the entire office resembled a small bank branch and not at all what I was expecting. Since “Quick Solutions” was prominently painted in bright letters around the building, it was hard to miss. The stairs were on the outside of the building, as is the usual arrangement in the Dominican Republic for separated office spaces, and the door at the top opened directly into the waiting room. I remember about three people sitting in the chairs, waiting for the client at the teller window to finish his business with the well-dressed woman behind the plastic panel. Although the waiting room (actually, more akin to a bank lobby) was small, the muted carpet, Haitian paintings, and good lighting all blended together to create a soothing atmosphere.

I had come by earlier in the day with a local pastor to be introduced and find a good time for an interview. As I returned on the back of a motorcycle-taxi, Yanqui was standing at the top of the stairs and recognized me immediately; when I reached the top of the stairs he was waiting just inside the entrance and ushered me into his office, a smaller mirror of the waiting room/lobby. I judged him to be in his early fifties with salt-and-pepper hair. Like his office workers, he was dressed nicely, though perhaps a bit less formally; the other male in the office wore a button-up shirt and slacks, compared to Yanqui’s well-starched khakis and polo shirt.

He was very business-like, neither rude nor warm, but courteous. As an American, I was more used to this type of interview than some of the others I had had. In the early part of our conversation, I learned he was a grocer in Brooklyn for 20 years (perhaps his subtle American mannerisms made me more at-ease than I was in my other prestamista interviews?). Though he never referred to the extralegality of his present business, he did not want me to record our conversation nor to show his letterhead of the papers I took away. Nevertheless, he was quite frank (and patient) as I scribbled our discussion.
A Pawnbroker’s Business

A typical deal

His business operates in a similar fashion to a pawnshop in the United States. Yanqui has a formal office and does not go door-to-door soliciting business; his clientele come to him. I assume he relies on word-of-mouth, small-scale advertising\(^4\), and the fact his office is strategically located. When a person comes to his office for a loan, they come with something worth much more than the loan they are asking for. Yanqui and the client agree to the terms of the loan, then fill in the blanks of a rather lengthy contract stipulating all the legal details, including the right to sell said guarantee in the case of default. The two parties sign and Yanqui has a lawyer who then notarizes all the documents.

An exceptional deal

An interesting variation is if the guarantee is a house or a car. Then the guarantee the client brings is the title of the asset. In addition to the regular contract, Yanqui pulls out another sheet which is a bill of sale, which goes through the same signature and notary procedure.\(^5\) The client effectively sells his asset to the company Yanqui, Inc. If all goes well with repayment, Yanqui will simply destroy the document and declare the loan paid in full. If other circumstances arise, Yanqui has all the legal documentation to proceed immediately to selling the asset and recouping his loaned capital from the transaction.

Paperwork

However, cars and houses are not involved in the typical transaction. Yanqui showed me paperwork where a man wanted a loan for 1,500 pesos. The client had brought a guarantee (I did not catch what it was) and an accompanying receipt showing he had bought it for 5,000 pesos.

\(^4\) See Appendix H for an example of his business card.

\(^5\) See Appendix I for an example of the title transfer and bill of sale Yanqui uses.
Besides this, there was the loan/repayment paperwork and agreement giving Yanqui the right to sell the object in the case of default. Although it does not sound like much, the entire manila folder containing the customer’s file was roughly a quarter-inch thick. I remember thinking I did not have to sign that much paperwork when my wife and I opened our Bank of America accounts. However, it seems to work well for him: when I asked about cases of customers defaulting, he said the point is moot. In the case of default, the client forfeits their right to the guarantee and he (Yanqui) has all the legal rights to sell the guarantee immediately; he does not need to bother with the delinquent client.

The informal credit market

Like I mentioned, I was very intrigued by the contrast between this air-conditioned interview and the other open-air interviews I had had. We started talking about his business in general and Yanqui was quick to tell me it was all legal – he was registered with the RNC (the Dominican tax agency), was faithfully current on his taxes, and the business was formally licensed. Additionally, all transactions were above-board, i.e. legally documented and “voluntary,” a peculiar word he dropped a few times in his explanations. As savvy as he seemed to be, I am sure it could not have escaped him that his business operates outside of the formal, legal realm. When he told me it was “all legal” I surmise the complete, if unspoken, statement was “the business is as legal as I can make it.”

Business in general “isn’t bad” he told me: “Here [in Los Alcarrizos] people have money problems and a lot of kids; there’s a lot of need. A business like mine does well in an area like this…These type of people are poor, poor.”

An Answer to a Thesis

Like I did in all other interviews, I asked my thesis question: why, in general, do microenterprises use prestatamistas when there are banks that charge lower interest rates? He
gave two reasons. The first explained how he has problems when he tries to use a Dominican bank. He said there are more requisites with banks and sometimes people do not have the needed requirements, but other times the problem is in the system itself. He said in the United States (he is a legal resident) he can go to any bank and get a US$100,000 loan with no problem – he has excellent credit and a business as well. When he goes to bank in the Dominican Republic it is as if he did not even have a job – they are very difficult to deal with.

The second reason he gave concerned the rationale of banks. They can loan cheaper (implied: than him) because they are loaning a greater amount of money. For example, he said ADEMI will not loan 5,000 pesos; it is too little of an amount, especially when they deal in transactions of 50,000 or even a million. Instead, people come to him and he will loan 3,000, though he has to charge more.

A History of Emigration

He did not stumble into the prestatista business by accident. About 5 years prior he had sold his grocery store in Brooklyn and returned to his homeland after 20 years in the United States. He immediately set up shop in Los Alcarrizos with a million pesos in capital (about US$25,000 at that time, he told me). I asked him why he did not stay in the same line of work upon returning to the country, like with a colmado or super market.

“I don’t like colmados,” he told me. “It’s much more work here. People here [in the Dominican Republic] don’t have an education and aren’t accustomed to helping themselves. In the United States, people come into the store and get their own stuff. Here, people expect you to wait on them.”6 From the number of super markets (supermercados) throughout the country, I suspect he was slightly off in this regard. Nevertheless, that was his rationale.

6 Since of course I do not have the original recording, this quote is as accurate a rendition (and translation) as my memory and notes allow me.
Yanqui was most proud of the fact that he had three daughters in New York who were all university educated and married, two of whom had children of their own. Though he and his wife moved back to Santo Domingo proper, they make a week-long trip back to New York (I assume the city) about every three months to visit their family. It was evident his grandchildren were a bright point in his life, as his otherwise stoic expression lit up and his eyes even sparkled when he talked about them.

**Banker By Day, Dancer By Night: **Prestamista Chaso

**Dispelling Images**

In interviewing Leo, a client of FDD, I found out that he was not only a good customer of the NGO but he was a regular customer of an informal moneylender as well. I asked him if I could interview his lender and by the next day I was sitting in his shop again, waiting on Chaso, Los Alcarrizos *prestamista*. When he arrived I immediately realized I was not dealing with the same kind of *prestamista* I had been interviewing. Instead of being relatively middle-aged with an air of adulthood, Chaso was much closer to my own age, probably in his mid- to late twenties, dressed in a younger man’s clothes, with a jersey shirt and hoodie.

He immediately started talking in English and asked me a couple of questions. When I hesitated (for one, I always hesitate in answering questions, and for two, my mind was switching gears from Spanish to English), he asked, in each respective language, if I spoke French or Italian. It seems he had a smattering of languages from living in Europe for the better half of year in the recent past. We spoke in English for a few minutes, but for our interview he felt more comfortable in Spanish. (I know too well the feeling of trying to think in one language and speak in the other.) He was quite the talker and we had a long discussion about his life and business.

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7 See Appendix J for an example of Leo’s contract with a *prestamista* (not Chaso, the moneylender of this interview who eschews all forms of documentation).
Extralegal Services for Legitimate Businesses

Chaso was very aware of the extralegality of his “street loans” and one of the first points he made was that he was not going to tell me either his first or last name, going only by his nickname (although he did let his first name slip a few times in his illustrations). He told me he was proud of his business endeavor which earns him a nice sum but at a higher risk. This higher risk prompts him to transact all his dealings verbally so there is not even a paper trail to lead the authorities back to him.

Finding a client

Chaso lives in Los Alcarrizos and regularly rides his motorbike through his ‘beat’ where his clients live or work. When someone wants a loan, they can either call him on his cell or simply flag him down as he comes through the neighborhood. For instance, when I had first returned to Leo’s store, he had forgotten to set up the appointment with Chaso. He called him on his cell and within 15 minutes I was talking to the prestamista.

A selective lender

This moneylender is very selective in his clients and tries to loan only to people who have a business or at least a good, stable job. He said at least six or seven out of every ten clients of his have a microenterprise, like a store or a small workshop (un taller). Non-microenterprise clients have an excellent job in the neighborhood so he can keep tabs on them. To convey a sense of how exclusive his loans are: he told me if his friend or brother comes asking for a loan, the reply is, “Sorry – you don’t have a business.”

Furthermore, Chaso is so choosy about his clients that he never loans to strangers. If the stranger is a friend of a client, Chaso will make a loan to his regular customer who in turn can loan the money to the stranger. When it comes time for payment, Chaso collects from his regular customer and never deals with the stranger.
To illustrate the point, the moneylender gave me this example. He has a regular client who owns a small factory. Sometimes one of the microentrepreneur’s workers needs a small emergency loan, ex. an ill child, Chaso loans the money to the business owner to loan to the worker. Whether or not the worker repays the loan is immaterial; Chaso’s loan is to the owner who will stand good for it.

**Dealing with a customer**

At some point, though, he does take on new customers. The first time he ever loans to this person he goes through a little ritual to explain everything and lay the groundwork for their relationship: “I’ll say, ‘I’m poor, just like you, and I’m loaning this to you, making a sacrifice in my life,’ etc. etc., ‘I’ll come by every Saturday. If you don’t pay, I’m going to have to collect the hard way.’”

However, if they are a regular client, like Leo, there is no need to talk about anything. Leo could call Chaso and have 5,000 pesos in 2 or 3 minutes; there is no need to discuss the arrangement because Leo already knows what his rate is and how Chaso collects, etc. Nothing is in writing with either new clients or established ones.

This moneylender reiterated time and again that he prefers his clients to be microenterprises because he can see they have something of value. For a customer like Leo, he knows his “money is here.” For non-microentrepreneurs, besides having a good job, they must have some collateral worth much more than the loan. Then example Chaso gave was a pair of tennis shoes, perhaps worth 2,000 pesos, that he can easily collect and carry away if the client should default on their 300 pesos loan.

Chaso’s average loan is around 2- to 4,000 pesos, with a maximum of about 15,000. However, for an “excellent” customer like Leo, Chaso would plunk down 50,000 pesos at his
prime rate. I say ‘plunk’ down because, like everything else he does, there is no paper trail even in payment so all deals are in cash.

**Collecting the rent**

He comes by every Saturday to collect payments from his clients. He noted that some *prestamistas* collect daily, but he does not have the time to do so. For instance, the day we were interviewing he had to be in the old colonial area of Santo Domingo (about a twenty to thirty minute car ride in light traffic) for a television recording. He would rather collect daily, though, because he could control the situation better and keep abreast of likely developments.

**Mind Games for Non-payments**

Chaso and I spoke at length about what he has to do in the case of a client default. Even with his selectivity in choosing clients, he estimated that of every ten people you (in the general sense) loan to, three or four are not going to pay very well. Chaso’s attitude is, “You’re a man just like me and you can’t keep my money.” He explained that to get his capital back in the absence of documentation and legal recourse, “*prestamistas* have to apply psychological pressure.” To be in this line of work, according to him, one has to be sharp, without fear, and has to have an iron will because otherwise one cannot apply the “pressure” necessary to exact one’s money.

**Escalating pressure**

Sometimes his clients simply do not want to pay and in this case he follows a fairly straightforward routine. He begins smoothly reminding them of their obligation and commitment, etc. The next step is to raise his voice and perhaps even be somewhat verbally abusive. If the loan is small, perhaps five hundred or a thousand pesos, he will let it drop trying to collect in this manner leads nowhere. However, when the loan is sufficiently large, like 5- or 10,000 pesos, the intensity escalates. Chaso will try to shame them into paying by smearing their
name throughout the community and thereby embarrassing them. If this still does not prompt them, he said, “If I have to get physical – if it’s a large amount – then I have to do it…If they see I want to fight, and they don’t want to, they see it’s better to pay me, and then we reach an agreement.” For all of this rhetoric, he has never had to be physically violent with a client; the threat of violence seems to be the breaking point, at least for Chaso’s clients.

Recouping losses

One agreement they might reach is that Chaso stops the interest accumulation on the delinquent debt. Although he does not earn any profit like this, the important thing for him is simply that they pay. Fortunately, he has always at least recovered his original capital, except for once. A friend of his mother’s needed a loan and his mother was the cosigner. Even though the person “cheated” him, he did not pursue the debt because it would have made his mother feel bad.

Contradictions in explanations

He said earlier that two or three out of every ten clients are not going to pay well. In returning to the topic, Chaso was a little more specific and said the breakdown of his clients’ payments are like this: two or three are not going to pay at all; on two or three he has to stop interest accumulation; and five pay well.

In trying to make the most our time since he had an appointment in the city, I did not analyze everything while we were talking and did not realize some of his statements seemed contradictory. For example, he said he has always recovered his capital, but yet told me two to three out of every ten of his clients are not going to pay at all. The only way I can make sense of our conversation is this: he would much rather receive money than whatever collateral was negotiated, and will take the steps he deems necessary to get it. If that absolutely fails, he then takes the collateral so that he at least recovers his capital.
The Birth of a Prestamista

The beginning

About 7 years prior to our interview, Chaso worked as a dancer at a resort hotel in the capital making minimum wage (±RD$3,200 per month) plus a little bonus, the net result being an income of about 5,000 pesos. One day a friend said, “Chaso, loan me a 100 pesos.” As a joke he replied, “All right, but you’ve got to pay me back in 5 days.” Shortly thereafter another friend asked him to do the same thing again for him. It was all history after that.

Throughout our interview he dropped comments defending his role as a prestamista; he felt that because he managed his money well, and it was rightfully his, that he had the right to loan it out and see an increase. This was juxtaposed with examples of others who, although they may be richer than him, could not manage their finances well and had to pay him interest because he did manage his finances well and had money leftover to loan.

For example, while still at the resort hotel, the chef was one of his clients, even though the chef made RD$23,000 per month (versus Chaso’s 5,000). The reason poor(er) Chaso was the lender, according to him, was because the chef did not know how to manage his money among all his costs: he had a car, children, two women, and he was building a house at the time, etc. A current example is the same local factory owner mentioned above. He may obtain a loan from the bank but then later realize he needs a larger loan. Since the deal with the bank is already done, he has to call Chaso for the money. Even though the man is richer than Chaso, his capital is not liquid and he has to utilize Chaso’s services.

Evolution of a moneylender

Some of this moneylender’s practices have changed over time as well. For whatever reasons, he used to require a client’s collateral in hand before he would loan to them, like holding a pair of tennis shoes and returning them upon full payment of the loan, like Yanqui.
How he chooses his clients has also changed as well. Whereas before he said he may loan to two out of every five who ask him, that ratio has changed as his requirements have increased. The amount he loans out has changed as well. Whereas before he would loan out larger amounts – say, 30,000 pesos – experience has taught him to make smaller loans. Nowadays his average loan is between 2- and 4,000 pesos for newer clients, and up to 10- or 15,000 for regular customers. For an excellent customer like Leo, he would loan anything he asked, up to even fifty thousand pesos.

He enjoyed recounting his journey from his humble beginnings to his current status.

“When I started, I was making minimum wage. But when you want something, you can attain it. What little I earned, [I saved], and I loaned out.”

The Family Life of the Dancing Daddy

“If you want a good life, you have to have patience,” Chaso told me a number of times. In all of his various activities, he definitely had a dream he was working towards. Although he was not specific, it was centered on his wife and four children. He had at least a lifestyle in mind and was willing to make a number of sacrifices to attain it.

One of those sacrifices was managing his finances well and living frugally, which was the opposite approach, it seems, of his wealthier clients. For instance, although he could have afforded a car, he prefers to save his money and ride his motorbike instead. Besides just the initial cost of the car there is maintenance as well. Instead, he keeps his capital loaned out in the street and visits his clients more easily on his motorbike. He explained this frugality also allows him to put his children in a private school.

Other Affairs

Chaso is engaged in a number of income-generating activities. He enjoys his moneylending affairs during the day, but at night he turns to his other business: a dance school. I
went the evening after our interview to a class and did not recognize him. From looking like a
guy picked out of a gang in the Bronx, he was transformed into an elegant young man about to
enjoy nightlife in the city. He and his student-partner were excellent dancers. It is a profitable
venture, though not the vehicle he believes will bring him the financial success he desires.
However, he told me, “I love dance – that’s my life.” In other words, the school’s function is for
personal reasons as well as monetary ones.

Besides his two businesses, Chaso is also an actor. The afternoon of our interview he was
scheduled to be at a television studio for recording. I talked to a few other people around Los
Alcarrizos and they agreed he was very good. Unfortunately, his role is not regular and the work
is only sporadic. To further support himself, he was also contracted one of the many cruise lines
in Santo Domingo (I am not sure in what capacity). The contract had recently expired and he did
not renew his contract because he wanted to devote more time to his children (ex. helping them
with homework, coming to their classroom) and to his street loan business.

Chaso’s attitude is upbeat. “In time, I will have my car and everything. Right now I have
RD$200,000 on a certificate of deposit in the bank, and I have another $200,000 I can use for my
lending business…If you want a good life, you have to wait.”

Towards the end of our interview I noticed the inscription on his hat was in English and
referred to a Biblical scripture. I asked him if he was an Evangelical Christian. He looked
surprised for a moment, so I explained what his hoodie said. He replied, “I am a Christian, this is
the religion I observe, but I don’t go to service. The prestamista is outside of the grace of
God…[shrugs]…I loan at a high price. But there are things I have in my heart, inside, like to not
rob or steal…”
Vendor and Lender: *Prestamista* Pelo

**Finding Him**

I was surprised in my interview with *colmado* owner Señor Sabado when, in the presence of two PyME BHD credit officers, he volunteered that he currently had a working relationship with a *prestamista*. Since he was still in the application phase and was not yet a client, I am unsure of whether this information helped or hindered his standing with the officers (or if it affected it at all). Nevertheless, he told me about the last loan he had received from his friend, how much it had been, and how he had used it. I asked if I could speak with his friend since I was trying to learn about microentrepreneurs’ sources of credit. Señor Sabado told me to come back Saturday to his other *colmado* in the marketplace, when his friend was sure to be in the marketplace, and he would see if he would like to talk to me.

Thankfully, this particular marketplace was not huge and when I came a few days later I found the microenterprise owner easily. He flashed a smile and told me to wait at his stand while he went to ask his *prestamista* friend if he would like to speak with me. I wandered around his booth taking stock of the staples of Dominican life (if a *colmado* is any indicator): plantains, Santo Domingo coffee, rice, powdered milk, garlic cloves, Tide, and a litany of other everyday items. Shortly he returned, beaming. It seemed I was in luck.

**Awkward Acquaintance**

Not having vast experience with *prestamistas*, I was still unsure of what to expect, but it was inaccurate, whatever it was. Pelo was not only a moneylender but he ran a vegetable stand in the marketplace as well, consisting of two long rows of wooden bins filled with plantains, celery, and a number of other vegetables this non-vegetarian could not identify. Señor Sabado quickly introduced us and then left us to return to his business.
I quickly received the impression Pelo had agreed to speak with me for his friend’s sake without quite knowing what he was getting into. I, on the other hand, had assumed the microentrepreneur would have at least told him I was a researcher investigating microenterprises, that I had been introduced to him by BHD and was therefore somewhat trustworthy, or something along these lines. After a false start or two I realized he had no background information on me, so I explained to him who I was and what I was doing (and, implicitly, why he should trust me enough to open up to me). After he figured out that I was not from the FBI (as one of Sandra’s customers had accused me of) our conversation started flowing a bit more smoothly. Unfortunately for me, the more comfortable he felt the stronger his Dominican accent became; because my Spanish was not the best to begin with, I was lost for stretches at a time, saved only by my trusty digital recorder.

**Pelo’s Practice**

**To lend or not to lend**

Since he works in the marketplace, everyone knows when and where to find him when they need a “street loan.” As there was another young woman working for him he can devote time to lending without sacrificing his other business (if his is a typical microenterprise, she would most likely be an unpaid relation). A true multitasking entrepreneur, he can run both enterprises at once.

Of those who come to him for loans, about half are microenterprise owners themselves and the other half are wage workers or marketplace workers. In any case, he knows them personally. “You can’t do business with a stranger,” he told me. I was curious about doing business with the those he knew extremely well, so I asked about lending to family members. “No, I don’t lend to family. You don’t lend to family because this is a business - like I told you earlier, this is a business – and you have to apply psychology. And, with family members, you can’t do anything.
If they need something, it’s better to give it to them because family is where problems start…then they will say that I’m bad…” I assumed his ‘psychology’ practice was similar to Chaso’s.

If he does not want to lend to a particular person – “sometimes they’re bad” - Pelo is at least courteous enough to lie politely: “For some people, you have to make it difficult. [I’ll say,] ‘Today, I don’t have any money,’ and you keep putting them off, but with hope.”

**Negotiations**

After gauging whether or not he would even consider a loan to the person (a non-relative, of course), they negotiate the terms. They probably already know what their realistic credit limit is with Pelo. For other business owners Pelo will lend about 5,000 pesos. For wage earners or marketplace workers, such as those who ferry people around on their *moto conchos* (small motorcycle) he may lend 2- or 3,000. Of course, for a trustworthy friend that amount increases. In my interview with Señor Sabado, he told me Pelo would loan him anything he asked, even up to 30,000 pesos.

Usually the client does not put up material collateral to guarantee the loan. Sometimes the client may use their *moto concho* or television as collateral, but this is rarely the case. Regardless, though, everyone signs a contract. Pelo had his worker get both the pink and yellow pads from the vegetable stall’s only piece of furniture, a rickety wooden side table with a single drawer.⁸ The yellow pad was a stack of pre-printed, generic contract with blanks for the names of the parties of the contract, contact information, amount of the loan, and signatures. The pink pad he showed me was a stack of pre-printed loan payment receipts that he gives to every client.

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⁸ See Appendix K for examples of Pelo’s blank contracts and receipts, as well as a current contract.
for every loan installment. Bar none, everyone signs a contract with Pelo. He then counts out the cash agreed upon (perhaps out of the vegetable stand’s till) and the deal is done.

**Repayments (via freewill)**

An important aspect in a loan from Pelo is that he collects money daily from his clients. Many employees are paid on the 15th and 30th of the month; if they want a loan from Pelo they are out of luck: “I don’t do business with them because they’re not going to have the money. I do business with those who make money daily because it’s easier for them to pay. They can pay weekly or daily – like if they have a *colmado* – you know where to get it and you’re making money daily.”

Whether he makes his rounds or his customers come to him, he interacts with all of them nearly everyday. When he receives a payment, he fills out a pink slip so both he and his customer have record of the transaction.

**Merciful renegotiations**

When he has having trouble collecting from a client Pelo told me:

I try to find out if they’re sick or something, to see if they can work and if they can pay. For example, one client had a motorcycle accident and broke his leg and couldn’t work for two months. But I didn’t worry about it because he told me, ‘If I have to add something to it, I’ll pay,’ and he paid me. When they’re like this, I hold on to them.

When I loan quickly, without collateral, you have to use psychological pressure. It’s like a psychological game: ‘If you don’t pay me, I’ll use the contract!’ But, even so, there are some who refuse to pay. Others say, ‘I’ll pay, just wait…’ etc…

Some clients pay beforehand and some later. Maybe seven [out of every ten] pay on time and some a few days later. I haven’t lost money yet; sometimes there are problems because people are bad, but they always pay.

**Repayments (via “psychological pressure”)**

Having interviewed a couple of other *prestamistas* by this time, I was ever more curious about the stigma surrounding the Dominican “loan shark” as the term is usually translated. At an
appropriate point in the interview I asked Pelo about the stories I had heard of the street lenders threatening and assaulting their clients who did not pay back their loans. He replied:

In those situations, if you come at them like that, they’re going to turn around and transgress against you. If I go at him like that, he might come at me and even kill me. If they don’t have the money I have to take it easy on them because they can get irritated.

To collect is psychological: the client has to feel good, be satisfied, to pay. But there are others who have problems and they don’t mind starting trouble – you charge them double [the interest]. For these people, it’s one thing if they don’t have it, it’s another if they have it and they’re spending it on the street. Then you have to piss yourself off to try to scare them. There’re some clients who don’t pay you unless you put your foot down.

**Lawyers?**

Since he brought up the subject of enforcing contracts, I asked if he ever used lawyers like some of the other *prestamistas* I had talked to. “I always use contracts when I’m lending. Right now, I don’t have a lawyer, but I plan on organizing my business…You need to have a lawyer to legalize your business so you can have the force to collect bad debt. Once you start making loans of 100, 50, or 20 [thousand] and up you need to have something to guarantee your money. Without a lawyer, how do you verify that a person owes you anything?”

**Formal financing**

When I introduced the subject of my thesis and started talking about banks, Pelo immediately launched into an in-depth description of his current loan with PyME of RD$50,000, more than half of which was loaned out again through his *prestamista* business. I freely admit I could never have a career playing poker; I felt my face reflect my reaction. I had wondered if these moneylenders ever received formal loans in order to lend informally, but since all the formal microenterprise financial institutions to which I had spoken were staunch in their position against *prestamistas* I had assumed such never occurred. It soon came out that PyME had made the loan based on his vegetable business. I asked if the bank knew he was using the loans to lend
informally; either my Spanish was not clear enough (which is very likely) or he wanted to evade the question (since, perhaps, my face belied its significance). I left the mystery unanswered.

Questions of competition

To guide our conversation back into comfortable waters, I posed my thesis question to him: why would other microentrepreneurs use his services as a *prestamista* when they could go to PyME BHD, like he did, and receive a much cheaper loan? His reply was twofold. For one, there are many more conditions or requirements at a bank: you have to put up collateral, to have good clients, and generally have a good business. Since Pelo lends small amounts—perhaps 5- or 6,000 pesos— he does not require a guarantee for the loan. The other reason is that he lends very quickly, whereas “a bank is not going to lend that fast… [they’re] not going to throw money in the street.”

That explains his formal competition. What about informal competition, i.e. other *prestamistas*? Although I did not voice the question behind the question, what I really wanted to know was if the comparatively high interest rates of these moneylenders was due, in part, perhaps to a monopoly they had over their clients. In other words maybe the average microenterprise can only borrow from one *prestamista* who can set their rates as high as they would like. Pelo’s answer quickly set that theory aside.

“There is always competition between *prestamistas*. For example, if I loan at 20 [percent a month] and someone else comes along and offers at 15, then there’s competition. If I have more money I can lend out at ten – then, I’m winning against the competition. Then, if he lowers it to ten too, and I want to have more clients, I’ll drop it to eight…The competition is just like a bank – some have higher interest rates than others.”
**Interest rates**

Having interviewed a few other *prestamistas*, I had learned the interest rate formula is quite complex, and not entirely quantifiable. Setting aside the above conversation, Pelo told me how he determines the interest rate for a particular client: (1) it depends on the capital he, Pelo, has available; (2) who the client is; and (3) the amount of the loan. “Good clients” can get loans at ten percent, depending on the amount of the loan and the length of the loan. Another factor that would help a client secure Pelo’s lowest rate would be valuable collateral, perhaps the title of their house or car. To illustrate these points he sketched a simple transaction: for a loan of 10,000 pesos over 2 months, he is going to recoup an extra 2,000 pesos in interest – thirty-three pesos a day over 60 days.

**Pelo’s History: “Country Come to Town”**

Pelo peppered our conversation with his personal account comparing his beginning as a *prestamista* to his position now. About two years prior his vegetable business was less profitable, so he used what profits he did have to begin loaning to others. He started with three clients and about 10,000 in capital. Since then, his business has grown to thirty clients and about 60,000 pesos. Part of the increase in available capital was reinvestments from the lending business and part was from another (or more than one) infusion of cash from the vegetable stand.

“I like being a *prestamista*. It’s a good business…I have a good relationship with my clients…however, I like the vegetable business more, it’s more profitable. For example, if I lend out ten thousand [pesos] for a month, I would make more invested in vegetables in one month.”

Pelo emigrated from the countryside to Los Alcarrizos for about five years earlier; most of his time since has been spent in the vegetable business. Between his two businesses, he supports his partner (perhaps she was the woman at the vegetable till; wherever she was, he emphatically pointed out she was not his wife) and her children from a previous union. Since most of our time
had been spent discussing the finer details of his moneylending, I wanted to ask him more about his background, especially since his place of business provided so few clues. However, a man with two businesses is probably a busy one, so I thanked him profusely for his time and wandered back to find Señor Sabado.

**Accountant, Entrepreneur, and Financier: Prestamista Pablo**

From all the sources I had quiered, the infamous Dominican “loan shark” should be lurking virtually on every street corner; to use an American colloquial expression, they should be ‘a dime a dozen.’ I found this to be a myth, at least in Los Alcarrizos. They were difficult to find and, when I found a lead, they were reluctant to open up to a perfect stranger, especially an American *gringo* who may be from the FBI (as I heard on more than one occasion). Nearing the end of my stay in the Dominican Republic I began to become desperate, asking anyone if they knew any moneylenders I could interview. Luck would have it that the trustworthy cabbie I regularly used to ferry me around Santo Domingo knew two quite well; I was able to interview one.

**An Introduction to Pablo**

By this, my last, interview I had come to expect virtually anything; I would not have been surprised if my cabbie Mazara would have taken me to a cabaret show for an interview backstage. Fortunately, we drove to a well-kept commercial building and parked in front of one of the non-descript office spaces, beside an attractive Jeep which I later learned was Pablo’s.

Pablo was seated at one of the two desks in the one large room that comprised the well-lit office. A secretary-receptionist sat at the other desk to one side of the room. On the peripheries were various filing cabinets, shelves holding files and books, and other assorted office furniture, on the whole conveying the impression of a well-organized business. Even though I had interviewed another moneylender with an even larger staff and the trappings of a more formal enterprise, something was amiss that I could not put my finger on.
Our conversation was somewhat advanced before the missing piece of the puzzle fell into place: this was not Pablo’s office. Rather, it was the office space of a mortgage company for whom Pablo was contracted as the accountant. It was somewhat disorienting for me because many of the activities for the two businesses are similar and I had trouble disassociating the image before me with his lending business. Even his two business cards – one for his accounting services and the other for this lending services – were the exact same format, with only the name of the respective business changed.9

**Modus Operandi**

**Initiating contact**

Pablo operates his informal credit service from an office in his house back in Los Alcarrizos; it had taken Mazara and me about 20 minutes to drive from there to the mortgage office. There in Los Alcarrizos, initiating contact follows the usual (informal) lines: word-of-mouth, a friend needing a loan, or a reputable person vouching for a stranger. I could see Pablo with a prospective customer, his stoic expression never wavering (he did not even smile for a later picture), speaking very rapid Dominican Spanish (my Dominican friend listening to the recording later even had trouble trying to help me catch all of the conversation), explaining what would be required for a loan from him.

**Getting a loan**

Pablo explained

To get a loan, it’s simple: I need your *cedula*10, an application, a background check, and signed papers agreeing to the rate and the amount. Sometimes I’ll give it even if you have bad credit because you’re a friend. However, if the loan is only for 1-, 2-, 3-, or even 4,000 you just have to sign [your post-dated personal] check. If it’s a mortgage or for a car, you have to sign a bill of sale and the title over to me. For a car, you have to demonstrate proof

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9 See Appendix L for both of his business cards.

10 In the U.S., this would function similarly to a social security number.
of insurance – if they wreck, [the papers state that] the insurance money goes to the prestamista, not the owner.

He showed me the loan contract (suspiciously similar to all the other prestamista contracts I had seen), as well as the bill of sale papers required for house or car loans. When such high-value items are involved, he uses a lawyer to notarize the papers, immediately pays the lawyer their fee in the presence of the customer, and then includes that additional charge in the loan. I assumed he paid the lawyer in front of the customer to show them what the extra fees were for.11 Sometimes, though, there is no collateral for the loan, only the word of the person. In such cases, if Pablo has complete confidence in them, he will loan – though he added it would be a small loan and the exact amount would depend on who the person was.

The amount requested by his customers varies according to their need, of course, but currently he does not lend less than 5,000 pesos at a time. His explanation was, “for a thousand pesos you don’t earn anything: the cost of the paper – the interest is so minimal.” The maximum amount he will lend depends on his own capital available (although I would hazard from the rest of our conversation that an unlimited maximum would only be granted to a select few individuals). If he does not have money available he refers them to someone else.

He usually does not know what the clients use the loans for. “Maybe you want to buy a freezer or go drink it all on the corner, or something. It’s your problem – just so long as I’m paid when I’m due.”

**Collections and defaults**

Pablo is very flexible when it comes to ‘when he’s due.’ Depending on the customer’s preference, it can be daily, every fifteen days, monthly – however the client wants to pay. Of

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11 See Appendix M for an example of Pablo’s checks used for paying the lawyers and the clients.
course, like with all the other moneylender interviews, I had to know what happened when they
did not pay. He told me:

I tell the attorney who files with the Land Office, pay the taxes due on the property, and
then proceed to take possession of the collateral. Thank God I’ve never had to do this.
Sometimes people lose their houses to me, but they come and talk with me and I say, ‘For
X amount you can have your house back,’ and they don’t have a problem with this.
Because someone helped me with this. The first time I was going to do this they told me,
‘Never take away someone’s house.’ And I asked, ‘Why?’ They told me, ‘Because it’s a
very bad thing to take away someone’s house that they have worked so hard for. Maybe
you lose your house, not because you want to, but because you don’t have any way to pay.’
So I facilitate a way for you to keep it.

According to Pablo, however, this practice of his was not what one considers “advancing.”

In a “real business” you are going to sell the collateral (in this scenario, a house) and reinvest the
profit in the business. In this manner, says Pablo, there are many banks and financiers who begin
with 1 million pesos and within 2 years have 30 million.

At the time of our interview, he said he had ten to fifteen clients currently late. If the
person is late 30 days, on the 45th day he sends a notarized letter from the lawyer. Without this
type of pressure, one’s business will not advance, he explained. However, many of his late
clients used to be punctual, so Pablo felt he could do nothing to cover the losses of those late
payments; since they are “good clients” he did not want to lose them.

Microenterprise clients

What about his microenterprise clients? Pablo told me he had three at that time: two
colmados and one wood seller. He has to give them cheaper interest rates because they are
investing in their microenterprises: “If you’re borrowing from me to invest, I have to give you a
good interest rate; they can’t pay me all that they earn on the money, the business.” Besides this
stated obligatory preferential treatment, the moneylender also has the added security of material
assets able to seized in the event of loan default. He said, “For the colmado…they sign the
papers giving us the right to everything of the colmado. If two or three months pass without
payment, the lawyer goes to the house with this signed paper and has the right to everything in the *colmado*…”

**Competition**

“So why do microenterprises use *prestamistas* when they could go to a bank and get cheaper rates?” I asked Pablo. His reply was it depends on why they need the money: if they need it now then they cannot wait 2 weeks for the loan to be approved. Even if you are a client with previously established credit there would still be at least a 72 hour wait. This is in contrast to Pablo who loans within a day or a day and a half. Pablo gave me the following illustration of a microentrepreneur’s rationale: “They come and say, ‘How much is he going to charge? So much? If I can make 15 [% profit] on it, and give him 10 [%], the 5 [% profit] is mine.’”

**Interest rates**

Unlike my other interviews where the moneylender left it up to me to deduce how they arrived at a particular interest rate, Pablo was very systematic about the informal formula, perhaps due to his training as an accountant. One determinate is the situation: for mortgages (and, I surmise, for other situations with highly valuable collateral), the general range is 7% to 8% a month; for personal loans, the range rises from 10% to 15% a month, the upper end being reserved for those without any kind of collateral. The interest rate is also dependent upon the amount: for only a 5,000 peso loan, Pablo charges 15%; for 30,000 pesos, the rate is cheaper, though he did not specify how much cheaper. Lastly, but most likely the initial consideration, there is the consideration of the person: “some get 10% and some get 15%,” though they may be receiving the same amount of money. In this manner, he explained, you protect your better customers so they do not go to someone else for their financing needs.

The atypical scenarios he offered were interesting. For the case where a person may have no collateral whatsoever, but yet whom Pablo feels he can trust, the person is charged even more
than 15% a month because of the risk of default. On the other end of the scale where there is sufficient collateral, microenterprises are charged 6 or 7% per month.

**Hypothetical interest rates.** Pressing the informal lender further into a discussion about determining interest rates, he provided an intriguing explanation: if he received a loan from the state’s microenterprise development program, PROMiPYME, at 2%, he could not loan it at 2%; he would lose money because of the cost involved in arranging the agreement. If he were to secure a source of funds at 2%, he would need to lend the money at least at 3.5% a month in order to continue the business.

Continuing this line of conversation, Pablo revealed another aspect in formulating his interest rates: what does the client need it for at that moment? According to him, sometimes people need a very quick loan. For example, if a relative of theirs has to go to the hospital or you need medicine immediately, *prestamistas* in general “take advantage” of that situation. He said regardless of what the interest rate is, even as much as 60% a month, there are people who will agree to it in order to get the loan. However, in these situations it is a “mission” to get your money back; they may pay the first two installments, but after that it is nearly impossible to recoup the investment.

**The Life of Pablo**

Part of the reason Pablo was so open to our conversation was that Mazara was his childhood friend and they had continued as such since both still lived in Los Alcarrizos. As I mentioned, he operated both businesses – his accounting services and his lending services – from his home in an office sectioned off from the rest of the house. He had been living with a woman for four years; coincidentally, that was about the same amount of time he had been a *prestamista*. Before that, as an accountant, he had witnessed the company he worked for lending to many people. One day he thought, *Why not borrow from me?* He liked the idea of being a
moneylender, so he began to distance himself from the job he had at that point with the idea of eventually quitting. He seemed to be quite satisfied with his current arrangement, running two microenterprises from his home; he spoke with unabashed pride about the new Jeep parked outside, a testament to his success.

Even though I write about his two microenterprises, he considered them to be two facets of the same company (and hence, the nearly identical business cards) or, in his words, “same company, just different services.” The singular company was registered with the government and he faithfully paid his taxes, registry fees, and generally complied with all other laws to ensure his company was fully legal (barring the overarching extralegality of prestamistas).

He had a number of loans through his company, primarily from two sources: Banco Popular, through which he had his automobile loan at 18.95% annually; and Banco Capital, through which he had a personal loan at 24% annually. He used some of this loan money as working capital for facets of his business.

Concerning capitalization, Pablo told me he did not have much capital as a prestamista to lend out; beginning with seventy thousand pesos almost four years ago, he had ‘only’ advanced to an amount of working capital of RD$700,000, spread out over about forty clients. Perhaps he was comparing himself to his example of other financiers with millions of pesos in available capital?

**Synthesis and Analysis of Prestamista Data**

Although each prestamista was different, their business activities usually fell under these common categories: establishing credit-worthiness, setting terms and conditions of the loan, formalizing the agreement, collecting loan repayments, and determining interest rates. This section is an attempt to map the path microenterprises traverse in soliciting an informal loan, to
demonstrate the rationale moneylenders employ during this process, and to contrast informal and formal creditors’ methods.

These informal moneylenders are as savvy and economically rational as their formal counterparts. According to data collected, the differences chiefly lie in the scale, resources, and legal frameworks that constrain the *prestamistas*.

**Establishing Creditworthiness**

Whether the lender is a large institution or a lone proprietor, the first order of business is to determine the credit-worthiness and risk associated with each potential client. Although a Dominican credit bureau exists, it is too expensive for some informal lenders to use. In place of other formal indicators such as a mortgage payment history or cell phone bills, they use that age-old system of word-of-mouth and social capital. Patricia told me for a new client this could be as simple as another person – even a stranger – vouching for the person’s reliability.

Chaso, on the other hand, rarely takes on new clients. Instead taking on additional risk in loaning to unproven people, Chaso loans to a mutual friend who is an established client. Whether the new client pays well or not is unimportant because Chaso’s old customer is responsible for the debt. In essence, it is the cosigner arrangement but with the cosigner holding primary responsibility from the very beginning. The important consideration here is that creditworthiness is still the first step in the loan process, though in this case it is the creditworthiness of the mutual friend.

Yanqui skips several steps in the usual process of moneylending because the client gives him the collateral at the beginning of the process. There is no need to establish the creditworthiness of the client; by holding the asset in his hands, literally or legally, all other credit considerations are superfluous. Barring a counterfeit car title or the like, the risk of losing his capital is virtually nil on all of his loans.
The formal counterpart to this step is similar. Formal creditors begin the process by collecting information to determine an individual’s credit-worthiness. They ask personal and financial questions, ask for records proving a good credit history, and ask for personal and professional references. If the potential client passes the initial test, they proceed to the next step.

**Setting Terms and Conditions**

**Loan amount**

If a *prestamista* decides to lend, they have to decide how much money they are willing to risk. Patricia, Yanqui, and Chaso explicitly told me their maximum loan amount is RD$20,000. Loaning only 20,000 pesos to an individual at a time minimizes their risk exposure, i.e. it minimizes the amount of money they lose if someone defaults on their loan. Patricia’s and Chaso’s capitalization is so small that a loan of RD$20,000 represents about ten percent of their total portfolio; they really cannot afford to lose much. Only Pablo set a minimum loan amount like the formal institutions. The other four moneylenders would loan to client whatever incremental amount needed.

ADOPEM and FDD pointedly told me there were credit ceilings dependent on the client’s financial position. They were willing to lend greater amounts to a person with greater financial resources. For formal and informal lenders, a credit ceiling is a mechanism to limit their risk exposure. For all the formal creditors, and for the informal lenders that spoke about the topic, when a client repays a loan and establishes a solid credit history with them, the lender is willing to extend even more credit for subsequent loans.

**Collateral**

The negotiating between Yanqui and a client is fairly straightforward: the maximum amount of the loan is set by the value of the guarantee. In the example he gave me, the collateral was worth 5,000 pesos and thereby determined the loan amount of 1,500 pesos. Here, the client
was loaned roughly a third of the guarantee’s resale value, assuming the object could be resold for its original price. In reality, that price is most likely going to be less, after taking in consideration for its depreciation in value and perhaps selling it at a discount to get rid of it quickly. The associated costs will also take away from Yanqui’s net profit, considering the time involved in finding a one-time buyer for a very specific item, negotiating with the potential buyer, formalizing the transaction with legal documents, etc. Additionally, Yanqui needs to recoup his initial capital, as well as realizing some profit for the opportunity lost of investing his money elsewhere.

Patricia and Chaso explained a similar business practice too. Just as a conventional financial institution will not loan more than the market value for a piece of real estate in case it has to sell the asset to recover the loan monies, moneylenders have to be able to recoup their entire investment in case of default, plus the costs involved in this process. In the end, they will hopefully recover their own initial investment and perhaps even a profit to compensate for the lost opportunity of loaning money to someone more reliable. Of course, if there is a cosigner there is no other collateral; the cosigner’s agreement (and ability) to pay stands in the place of any need for a material guarantee. In general, the cosigner will be someone in as good as, or an even better, financial position to pay the loan than the actual borrower.

Chaso’s interviews illustrates the above two points rather well. As mentioned, instead of taking on new clients, he lends to an established client of his own and the their ongoing relationship stands for the needed collateral. In this way, he circumvents many of the problems listed above. He told me when he does lend to new clients, they must be microenterprises because they have something of value he can see and collect if they do not pay when he comes.
The risk associated with loaning to a microentrepreneur is lessened because the collateral is easily identifiable and transportable, ex. valuable merchandise like a nice pair of tennis shoes. In the case of default, he is more likely to recoup the cost of the loan from a microenterprise owner through the business’ material assets than he would otherwise, thereby lowers his own risk.

The mirror-image of this in the formal realm is the requirement of some form of collateral. Appendix F is an example of the form FDD’s clients must sign which gives FDD possession of the client’s real assets in case of default. For formal and informal lenders, the best collateral is a cosigner. No lender wants to wind up with a freezer or a 1978 Datsun pickup; they would rather have another option for recouping their capital in cash.

**Formalizing Agreement and Disbursements**

The final step in a typical lending situation is closing the deal by formalizing the negotiated agreement and transacting the money. For Patricia, Yanqui, and Pablo, this takes the form of a ready-made contract stipulating the terms and conditions, which is later notarized by a lawyer. Pelo, too, uses ready-made contracts, but without notarizing them.

Since Chaso is adverse to any kind of paper trail, his method of solidifying the agreement is a veiled threat (“psychological pressure”) of the consequences of defaulting on their loan. It is much more personal and menacing than signing a contract, but the logic and effect is the same: at the time of the transaction, the client is informed of the consequences of defaulting on a loan. With Chaso, the information is given by mouth instead of by paper, with the added menace to substitute for the lack of other options in the event of pursuing the delinquent loan.12

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12 As noted previously, he has never resorted to physical violence; simply the escalating threat usually brings the client to a negotiating point.
As Pelo said over and over, being a prestamista is a psychological game. Everyone has to sign a contract, regardless of the fact they are not legally enforceable. Since he does not even use a lawyer, the contracts are another method Pelo uses as a safeguard against default on the loan. A document spelling out the agreement with a person’s signature does indeed carry weight, and Pelo uses its significance to enforce the extra-legal agreement.

The very end of the transaction is, of course, the exchange of funds. Here, Patricia takes an additional legal precaution in that she only disburses loan money via cashier’s check; the borrower cashing the check is an implicit legal agreement as well as legal proof of the transaction. Yanqui as well dispensed through checks, though they were company checks instead of cashier’s checks. This adds another layer of legality and formality to the exchange; they have proof the transaction occurred.

Chaso, on the other hand, deals strictly in cash because of his fear of any incriminating evidence. He carries a certain amount of money with him and can loan almost immediately, at least for smaller loans to established clients. He said when Leo needs a loan he has it in two or three minutes (if Chaso is in neighborhood). Chaso takes on extra risk like this because people know he is a prestamista, that he deals in cash, and that he is going to have a certain amount of cash on him which makes him a target for robbery. Pelo, too, dealt primarily in cash.

In this regard, Patricia, Yanqui, and Pablo are more like their formal counterparts than their fellow prestamistas Chaso and Pelo. Like FDD or the other microfinancial institutions, these three moneylenders want legal recourse in case of nonpayment. Otherwise, they would have to resort to “psychological pressure” like Chaso and Pelo, which is more complicated, risky, and in which they are less likely to be able to seize the collateral. However, both Chaso and Pelo would rather utilize the (quasi) legal system, but they must operate outside of it because (1) in Chaso’s
case, he is very fearful of the legal repercussions for himself of being a *prestamista*, and (2) in both cases, the cost of using a notary public or lawyer is high.

**Collections and Defaults**

One of the advantages of the *prestamista* for the microenterprise is flexibility in repayments; Pelo was the only moneylender who told me he required his clients to repay him according to a certain schedule (daily). It seems all the others allow their customers to choose how they wish to repay the loan. Pelo prefers daily loan payments because it is much easier to collect 33 pesos a day (about US$1), than 185 pesos every Friday.\(^{13}\) Besides being paid daily, this arrangement allows Pelo to keep abreast of his clients’ situations; if a customer is unable to pay, Pelo can prepare better for the situation if he is aware of it immediately instead of finding out at the month’s end when the entire payment is due.

In the case of client default, every financial lender has a certain modus operandi for dealing with the bad debt. For Patricia and Pablo (who use notarized documents and lawyers), the process follows the method already described in Patricia’s interview: an initial letter reminding them the payment is past due, then another letter threatening seizure of collateral, and finally coming to repossess the collateral in person. Yanqui, of course, is already in possession of the collateral and simply sells it.

In Chaso’s case, there is no legal framework to fall upon since he tries to stay outside of it. His only option is to rely on his own methods of trying to enforce the verbal contract. Instead of a polite letter that the debt is overdue, he comes himself to “smoothly” remind the customer of their obligations. In place of a following letter threatening to proceed with debt collection, Chaso

\(^{13}\) Since RD$33 per day over seven days does not equal 185 pesos, I assume Pelo was simply making up numbers for the sake of illustration.
comes in person to deliver the threat. The intensity escalates until debt collection is imminent. Since he cannot legally take the agreed upon collateral, he turns to the threat of violence.

Although Pelo is like Chaso in this regard, for hardship cases he emphasized his willingness to alter the arrangements so that the person is able to meet their obligation. As he said, he wants “to hold on to them.” He would rather keep a long-term client who is willing to pay than sour the relationship to regain his invested capital quickly. However, when the situation starts deteriorating and the client refuses any form of repayment, Pelo has to become a master psychologist and somehow coerce his client to pay the agreed upon amount without becoming so threatening that the other party becomes violent as well. He has to gauge their breaking point so that he comes close enough to the line to scare them into honoring the contract without actually provoking them into a similar state. Since after two years and thirty clients he has never lost a peso, he must be well on his way to becoming a disciple of Freud.

For all the informal moneylenders, seizing their clients’ collateral is not the desired outcome. They are in business to provide a financial service and to be rewarded for providing that service. It is in the prestamista’s best interest to keep good relations with their customers and build an ongoing relationship profitable for both parties. The example of Patricia and friends Juan and Sara illustrates this point well. The moneylenders’ aim is to see their capital returned with some interest. Although the eventual outcome of pursuing a delinquent debt may be the seizure of property, it is a last resort.

Likewise, formal lenders want their customers to pay their current loan in full, then solicit another, even larger loan. The formal terminology for this is ‘graduating’ a microenterprise. As the microenterprise expands and becomes more successful, the relationship between it and its creditor(s) improves as well. However, if the microentrepreneur is unable to pay, eventually the
formal provider must seize the collateral. As Sra. Canalda told me, ADOPEM probably will not recoup its total investment from seizing the collateral, but it must take action so as not to encourage a culture of loan default.

**Determining Interest Rates**

Somewhere in the transaction is the core of this thesis: the interest rate. True to their informality, no *prestamista* had an explicit formula to determine a particular interest rate for a client. Instead, it seems each has a general equation in their mind with a number of variables effecting the final rate for a certain situation. As no one interview revealed every factor, I have pieced together what the informal equation looks like from the interviews of all the *prestamistas* as well as their clients, presented in Table 4-1. As each determinant increases, the ultimate interest rate charged decreases; the exception is the cost of capital (when applicable).

<table>
<thead>
<tr>
<th>Effect on interest rate as determinant increases</th>
<th>Determinant</th>
</tr>
</thead>
<tbody>
<tr>
<td>−</td>
<td>Loan amount</td>
</tr>
<tr>
<td>−</td>
<td>Length of loan</td>
</tr>
<tr>
<td>−</td>
<td>Creditworthiness</td>
</tr>
<tr>
<td>−</td>
<td>Collateral value</td>
</tr>
<tr>
<td>−</td>
<td>Capitalization of <em>prestamista</em></td>
</tr>
<tr>
<td>+</td>
<td>Cost of capital</td>
</tr>
<tr>
<td>−</td>
<td>Competition</td>
</tr>
</tbody>
</table>

**Loan amount**

Yanqui explained how the loan size influences the interest rate with an example: “Two percent of 5,000 is not 2% of 2,000 pesos; it’s more expensive for me to loan out 2,000 pesos than for me to loan out 5,000 because I earn less on 2,000.” There are two factors that come into play here. For one, the more he can loan out, the more he is earning; he would rather charge a lower rate and earn interest than to have his capital lying idle. The second factor is that despite the loan size, there are a number of variable costs associated with each transaction: notary and/or
lawyer fees, the cost of the many documents, and most importantly Yanqui’s time which could have been spent negotiating a larger loan with another client. This is not to mention the fixed costs of employee salaries, rent, utilities, etc. It is literally more expensive to loan 2,000 pesos than 5,000.

Formal lenders, too, charge less for successively large loans. The example Sra. Wiscovitch of FDD gave me was the three different interest rates they charge for different loan amounts: 3.8% (monthly) for 5- to 20,000 pesos; 3.6% for 20- to 50,000; and 3% for over 50,000. Microenterprises receive discounts for buying in bulk from both informal and formal sources.

**Length of loan**

Patricia’s interview illustrated the effect of this determinant: although she would earn a 40% return on her money by loaning to someone for 20 days, she charges only 7% per month. There is an incentive for clients to borrow her capital for longer periods of time, although this means Patricia will earn less interest over a longer period of time than if she had rapid loan turnover, like making a new loan every week. An important consideration is that Patricia is not guaranteed she will be able to quickly loan out her money again; having long-term borrowers ensures her money is continually producing interest, as opposed to her capital simply earning a minimal interest rate in her checking account in between the times someone needs a loan.

This aspect of interest rate determination is where there is a great divide in the formal/informal realms. The institutions usually set the loan to be paid over a much longer period of time, perhaps a year or even a year and a half. *Prestamistas*, on the other hand, deal in shorter cycles of weeks or even days. Sometimes those cycles extend to months, but my interviews did not indicate this was normal. Since there is such a fundamental difference in this concern, it is difficult to compare the institutional rationale to the moneylenders’.
Creditworthiness / collateral value

The next step in this informal formula is to factor the collateral a client has established with the moneylender. As I have shown, collateral can take either tangible or intangible form; that is, it can be material assets or trust between a moneylender and client. Chaso’s rate for new clients is 10% per week. Regular clients – those who have a year or so with him – receive Chaso’s prime rate of 5% a week. In other words, half of his normal rate is associated with the risk of a new client; the rate is halved by simply establishing trust. Even if the loan is only for 1,000 pesos, he charges only 5% (instead of increasing the rate, as Table 4-1 would suggest) because he knows that the relationship is an enduring one. As he said, “they’re always going to be with me.” Since he does not make large loans to newer clients, the ultra-prime rate of 15% interest per month for large loans must be only available to microenterprise clients like Leo, again underscoring the effect of creditworthiness/collateral value in determining the interest rate.

Pablo’s clients have the option of putting up collateral or not. For a personal loan without some kind security backing it he charges about 15% a month; all else equal, that rate drops by a third to 10% by guaranteeing the loan with something of value.

As aforementioned, formal microfinanciers are altogether less concerned about collateral value than prestamistas. The more important consideration for them is the credit-worthiness of the individual. As for the informal lenders, the microenterprise’s credit history is a type of collateral. As Sr. Santos of PyME explained to me, microenterprises with more experience and a better overall credit-worthiness receive a lower interest rate than other PyME clients in similar contexts. This illustrates yet another aspect in which formal and informal lenders find common ground.
Capitalization of the *prestamista*

Chaso and Pelo also told me that the amount of money they had available to loan affected the interest rate they charged. In this case, the interest rate rationale has nothing to do with the client and instead reflects the financial situation of the moneylender. As their pool of capital shrinks, a RD$5,000 loan becomes a proportionately larger share of their total resources. Even though the loan amount would not change in this scenario, the *prestamista’s* risk increases because they are lending a greater percentage of their overall capital.

My interviews with institutional representatives did not indicate this was an important consideration or even one at all. I assume that is because they are much better capitalized than the individual *prestamista*.

Cost of capital

The best example of this factor’s effect is in my interview with Pablo where he gave the hypothetical situation of receiving funds from PROMiPYME at two percent per month. If he were able to do so, he estimated he could charge 3.5% per month to his clients (in the range of formal creditors) and still run a profitable enterprise.

ADOPEM, too, gave an example of how the cost of capital effects the interest rate they ultimately charge to the consumer. Recounting that part of the interview in Chapter 3, Sra. Canalda told me the amount ADOPEM had to pay for financing was the basis for formulating an interest rate.

Competition

As Patricia said, “there’s too much competition between *prestamistas* – there’s too many of them.” Pelo gave the example of a price war between him and a hypothetical *prestamista* in which he was continually forced to lower his rates to retain a customer. None of the moneylenders indicated they had a monopoly hold over their clients are that they were immune

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to the affects of competition. This sounded strikingly like Sra. Wiscovitch of FDD recounting the friendly exchange in Chapter 3 between her and the representative of PyME.

Summary

Table 4-2 summarizes interest rate minima and maxima of informal lenders, with ADOPEM provided for contrast.

Table 4-2. Interest rate ranges in percentages per month.

<table>
<thead>
<tr>
<th>Lender</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADOPEM</td>
<td>2.8</td>
<td>3.5</td>
</tr>
<tr>
<td>Patricia</td>
<td>7</td>
<td>50*</td>
</tr>
<tr>
<td>Yanqui</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Chaso</td>
<td>15</td>
<td>40</td>
</tr>
<tr>
<td>Pelo</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>Pablo</td>
<td>6</td>
<td>≈15</td>
</tr>
</tbody>
</table>

*Estimated.

As Table 4-2 illustrates, in some instances the prestamistas’ interest rates are much higher than a formal credit provider’s rates like ADOPEM. However, in an ideal context, a Dominican could receive a loan from Yanqui for 3% a month – a half percent below ADOPEM’s most expensive rate.

Conclusion

In this chapter I have provided a rough sketch of what microenterprises have to do to receive a loan from a prestamista. In is not as simple as walking up to a person standing on the corner and asking for some quick cash. On the contrary, depending on the moneylender, it can be quite an involved process with a small load of paperwork.

These five prestamistas provided three explanations of why microenterprises would use them instead of formal creditors: prestamistas loan more quickly, they loan smaller amounts than formal sources will, and they do not require as many requisites. They did not indicate their clientele were irrational or unaware of the higher costs of informal credit.
I have also provided information regarding the personal lives of *prestamistas*, their roles in the community as well as the informal economy, their relationships with their clients, and the rationale they use in their business practices. Their interest rates, though certainly high as compared to formal rates, are not arbitrary or exorbitant. These moneylenders gauge the risk associated with operating outside of legal frameworks, the creditworthiness of their customers, their likelihood of recouping their capital outlay, and other considerations, and then assign an appropriate reward for those risks.

Chaso was closest to the legendary prestamista; however, even he came up short because he had never been physically violent with a defaulting client. None of these moneylenders’ interviews support the vilification they have received in the literature. Table 4-3 contrasts some the practices of the informal moneylenders and ADOPEM’s. As it demonstrates, there is an inverse correlation between the degree of formality and the use of “psychological pressure.” Thus, I conclude that the less moneylenders are able to rely on legal recourse to make clients honor their agreements, the more they must rely on their own methods for enforcing those commitments.

I end my analysis of informal credit sources and interest rates with a final question: if formal institutions operated at the same scale prestamistas do, how high of an interest rate would they have to charge to remain profitable?

Until this point of the thesis, I have presented only one side of the microfinancing coin: supply. The next chapter deals with the demand side for microfinance: the microenterprises themselves.
Table 4-3. Contrasts of lending practices.

<table>
<thead>
<tr>
<th>Business practice / Lender</th>
<th>ADOPEM</th>
<th>Patricia</th>
<th>Yanqui</th>
<th>Chaso</th>
<th>Pelo</th>
<th>Pablo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal office</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Notarized documents</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Non-cash disbursements</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td>?</td>
</tr>
<tr>
<td>“Psychological pressure”</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>
CHAPTER 5  
MICROENTERPRISE CREDIT USERS

The two previous chapters presented two of the options microenterprises have for filling their credit needs and those lenders’ ideas of why a microenterprise would choose one source over the other. This chapter is composed of 18 non-
prestamista microenterprise interviews and allows them to answer that question for themselves. Whereas the previous chapters were organized by individual interviews, this chapter is organized by the six answers I found in my interviews. They can grouped under two broad headings – inaccessibility to formal sources and prestamistas’ utility – and I present them from the least supported reasons to the strongest supported reasons. When I use the words “strongest supported” it does not mean the answers I heard most often. Rather, it refers to the answers I heard which were supported most by the data I collected from the microenterprises themselves.

Inaccessibility to Formal Sources of Credit

Of the six general reasons microenterprises choose prestamistas over formal creditors, four can grouped under this heading. The unifying theme is that microentrepreneurs are unable to utilize formal credit because of some obstacle. In lieu of this, they must use prestamistas.

(Un)Awareness

Virtually all of the microentrepreneurs I interviewed were very informed about the competing sources of credit they could choose. Even specific names were very familiar to them, ex. ADEMI, ADOPEM, PyME BHD, etc. However, I encountered one microenterprise who knew virtually nothing about microcredit named Felicia. Since three members of my Dominican host family worked part time for Felicia and I usually ate lunch there, I had ample opportunity to experience the everyday operations of this microenterprise firsthand.
About 15 years prior, Felicia was about to be thrown out of her house because she and her husband could not pay the rent. My host mother encouraged her to do something for herself and taught her how to make a type of juice and biscuit that she could sell on the street. A decade and a half later, Felicia’s business has evolved into cooking plate lunches for fifty to sixty free trade zone workers during the week. As her business expanded so did her lifestyle: she bought land, built a house and an ample-sized kitchen to accommodate her business, and educated her son at a trade school. She now employs four to seven people part-time, including her husband.

In spite of her success as a microenterprise, she had only peripheral knowledge about microcredit programs. She has never pursued the idea because she has credit with her supplier and a savings account, she manages her finances well, and does not need a large amount of capital. The only major purchases on the horizon are the occasional stove or freezer, should the ones she has fail. Because of her financial stability and her business operates, Felicia does not feel that she needs a loan, and she certainly does not want one. To get a loan she believes she would have to use her house as collateral and, as she said, “if you lose the house, you lose everything – my house is all I have.” Felicia remains unaware of the possibilities of microcredit because of her risk aversion and the lack of necessity otherwise.

Although Felicia did not use *prestamistas* either, other people I interviewed, especially clients of formal credit sources, offered hypothetical examples of microentrepreneurs like Felicia who were unaware of the opportunities afforded by microfinancial institutions and so instead used *prestamistas*. A case in point is the paradox presented to me by Celia, a secretary of a type
of financing company as well as a microentrepreneur herself.¹ She told me why some customers use their company over formal ones. Among those reasons was this:

Sometimes the person forms in their mind an incomplete thought, ‘How will the bank -? They’re not going to loan to me,’ and puts this negative attitude in their head – ‘how can they loan to me?’…sometimes the person does not know that in a bank it is easier, and that the rates are excellently [sic] much better than a financiero. But you know, everyone does not have the same level of knowledge, because that’s the way it is. If all of us were sooooo [sic] intelligent, we [lenders] wouldn’t sell anything (laughing).

Afterwards, when we started talking about possibilities in expanding her microenterprise, she expressed interest in PROMiPYME. Someone had been in the office before talking about the incredibly low rates the state offered microentreprises. I asked her if she knew any other lenders, like ADEMI, ADOPEM, etc. Ironically, she replied no; the casual conversation of the passerby was absolutely the only thing she knew about microfinancing. After she and her husband are finished with a loan he has, they plan on investigating PROMiPYME further.

Thus, unawareness of the possibility of formal credit is one reason microenterprises may use prestamistas instead of available (and cheaper) formal credit. However, I did not actually interview someone who used prestamistas because they did not know of microcredit programs; Felicia, though unaware, did not use loans at all. Hence, this is the least supported reason articulated to me, although one of the most frequently heard.

**Personal Preferences**

Conceivably, personal and/or operational differences in microenterprises are a factor in decisions of choosing one credit source over another and I did in fact encounter a few illustrations of this. Samón is a clothing retailer with a comparatively large store and offers everything from lingerie to children’s clothes and haute couture jeans. In spite of being the

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¹ She is the secretary of a financiero. This type of informal creditor is similar to the pawnshop-model of Yanqui, with a few twists. I did not include this interview in chapter 3 because I was not able to speak with the proprietor himself and because the business loans to few, if any, microenterprises.
proprietor of such a successful shop in Los Alcarrizos, she is very soft-spoken and was somewhat timid in our interview. I was fortunate the ADOPEM officer accompanying me took an active role in the interview and gently prodded Samón for more explanation when her answers were succinct (or when my Spanish failed miserably). She is currently in her third loan arrangement with ADOPEM, this time for RD$30,000, and is quite satisfied with her bank.

In spite of her timidity and my inexperience in interviewing at that point, Samón gave me a wealth of information. She prefers paying her debt to ADOPEM monthly versus paying her prestamista weekly because she feels it is more convenient.² I asked her to explain why she prefers a bank over her moneylender. “(Laughing) Because the prestamistas are more difficult, they’re harder – you have to work more to resolve [your debt] to them; you only have to pay the bank monthly…” She would rather have one, albeit larger, payment per month than many smaller ones.

On the other hand, there is Ñuñu’s rationale. When I talked with this beauty salon owner most of the neighborhood heard us. Besides the salon opening right onto a busy street in Los Alcarrizos, Ñuñu herself was very boisterous. She was very warm and answered all of my questions, and I could not miss any of them in that echoing salon. Ñuñu had successfully solicited a RD$50,000 loan from the state program PROMiPYME and was paying it back at a coveted rate – about 1.2% per month over three years. However, she also had a loan from a local prestamista (a “daily loan” she termed it) of 5,000 pesos at about 13% per month.

She prefers her daily payment arrangement with her prestamista over her monthly payments to BanReservas because she pays a little at a time instead of having one large payment per month. “(Lecturing me) Daily loans are better. If I don’t work today and tomorrow, because

² See Appendix N for an example of Samón’s prestamista contract.
there’s no work, and then I work the third day - I never go 20 days with paying - if I get 2 or 3 days behind, I can pay all of it together.” She also told me she likes to be finished with her loans quickly. She can pay off her loan with the *prestamista* within a few weeks versus having a loan with ADOPEM for a year.

Therefore, personal preferences are also a factor in why microenterprises would use *prestamistas* over sources of formal credit. The two microenterprise examples I have presented here illustrate two of those preferences. One is that different microenterprises need or prefer different payment plans; Samón preferred monthly payments whereas Ñuñu preferred almost daily payments. The second preference is that Ñuñu wanted to be rid of her credit obligations quickly and liked the option of being able to pay off her *prestamista* rather quickly, versus having the payments hanging over her head for months on end.

**Loan Caps**

Although Samón is on her third loan with ADOPEM, in times of crisis she has to look elsewhere for help because she cannot renew her credit with the bank. Until she pays off the current in its entirety she is ineligible for further loans from them. If she needed another rather large infusion of funds, she told me she would have to look to other banks, such as ADEMI or BanReservas (PROMiPYME).

Another client to whom the ADOPEM loan officer escorted me was Colmado Europa, or rather, just one of them. In only three years of business, the owner has established four colmados. If I remember correctly, our interview took place at Colmado Europa II. There are two things I distinctly remember, though. One was worrying that the rain would obscure his voice on my digital recorder. The other was an older man sitting in a rickety chair just outside the doorway to the green colmado, laughing and parodying our conversation, shouting out “loans,” “a thousand pesos - dollars! Hee-hee!,” etc.
In spite of the cackling echo and the rain, we had a long discussion captured perfectly by my trusty Olympus WS-100. Like I prompted my other interviewees, I asked this microentrepreneur what he does when he needs money. “First, I have to finish this debt, if they’re going to sell me another – if they’re going to renew it. For example, if someone tells me, ‘I am going to sell that corner to you for half a million pesos…’ Well, I need half a million pesos. But I already know where to get it.” In other words, even though he can take out a loan of half a million pesos, he has to wait until he is finished with his current loan before he could solicit that loan.

Peppered throughout my interviews were references to the microentrepreneurs’ future plans concerning financing. For those clients of microfinancial institutions, they were usually well pleased with their respective lender(s) and wanted to finance through them again (this was true even for those I interviewed without a loan officer by my side). However, many told me this was not an option until the current loan was finished.

This underscores the topic heading: there are obstacles barring access (or further access, in many cases) to formal sources of credit. In this instance, because microenterprises already have loans with microfinancial institutions, they are unable to receive more funds. With this avenue closed, they turn to other credit sources, including prestamistas.

**Requisites**

One problem I had to overcome in my fieldwork was the language barrier and this was more than simply the English-Spanish divide. I had to relearn vocabulary to describe the research I was pursuing. After I explained to Sara that a small business (*un pequeño negocio*) was more than just *colmados* and beauty salons, and could be a small factory or workshop (*un taller*), she immediately thought of her friend José. One Sunday shortly thereafter we walked from her *colmado* two blocks in the rain (why was it always raining when I need to interview people?) to
José’s apartment complex; coincidently, the apartment’s back wall was the other side of the dead end on street I lived on.

José and his business partner had opened their workshop about six months earlier. They can create nearly anything out of sheets of stainless steel. On his Compaq laptop he showed me his digital portfolio of past projects which ranged from airline ticket counters to cafeteria equipment, and even a mechanized stirrer for an industrial plant. With their pooled savings and a personal loan of RD$120,000 from BancoPopular, this Ecuadorian mechanical engineer and his Dominican counterpart began their business by going door to door with a photo album highlighting their skills. They are able to manage their cash flow by a couple of methods. One is cash advances they receive from their clients to purchase the raw materials necessary for the job. The other is a personal credit card José has, also with BancoPopular. He uses it for the business when necessary and pays the full balance at the end of each month. For personal emergencies, if his own savings are not sufficient, José can even borrow from his partner’s savings or the savings account of the business.

I asked him why they did not solicit ADOPEM or another microfinance institution for funds. He would like to but said the banks will not loan unless the business has been established for a year; until then, any lending institution will not consider the business at all. “When we have a year we will move into new ground; I’ll explore our options.” Until then, they juggle financing with the business’s earnings and personal loans.

Rosa illustrated this point for me rather well while we talked in her clothing shop on the main strip of Los Alcarrizos. She feels she has been quite successful and fortunate by being able to buy the two story building housing her store; the top level is her home, while the bottom is given over to her microenterprise. Besides this, she built her daughter a house and educated her
son as an accountant. He now runs his own successful accounting office; she keeps her loans with FDD a secret from him because he would be mad: usually when she has a “little problem” she needs to resolve, she gets the cash from him and he would not like the fact she was paying someone else for financing. The twinkle in her eye said she was quite proud this arrangement and her son’s apparent success.

She does not need to use a *prestamista* – “gracias a Dios”\(^3\) – but she feels many people may need to:

Maybe they don’t have - how do you say it – the collateral the Foundation [FDD] requires. [For example,] I have a friend of mine whose business was robbed and they burned what was left. I took her to see if she could qualify for them to loan to her. Now, if she doesn’t qualify because they don’t want to, we’re going to put up – because she lived there, in the little house, more or less, you understand, [and now they may not approve her] – I’m going to make myself responsible and cover the loan with my business to help resolve her problem of finding a space…If you don’t have the requisites, they are not going to loan. If you don’t have anything, how are they going to loan? The bank’s not going to loan unless you have the requisites.

Samón, the other clothing retailer whom I previously introduced, also provided an example of this point, albeit hypothetical. In talking about why microenterprises choose *prestamistas* over ADEMI or others, she told me, “I don’t believe it’s because they prefer *prestamistas*. Sometimes they come to ADOPEM dependent on a guarantor [co-signer] or on a number of people, maybe three or four, I don’t know how many\(^4\)…a person may not be able get a loan [on their own]…maybe they have bad credit elsewhere…they may have things that don’t help them get credit and [the possibility] is closed. So then, if they can’t get a loan, they are forced to use a weekly loan [*prestamista]*.”

\(^3\) *Thank God!*

\(^4\) Another type of lending arrangement is for a microcredit institution to lend to a group of people instead of to an individual. This arrangement is called a solidarity group.
Whether because of bad credit or other considerations, Samón’s hypothetical microentrepreneurs are precluded from utilizing formal sources because they lack the collateral for a loan (in this case, a cosigner or guarantor). The examples in this section exemplify yet another reason microenterprises must use prestamistas instead of formal credit sources: they are ineligible to receive formal credit because they did not meet the requirements. Those requirements could be basic creditworthiness, length of operation, sufficient collateral, etc. In any case, they are barred from using cheaper formal credit.

**Utility of Prestamistas**

The last two reasons are grouped under the topic of the utility prestamistas provide over banks. Whereas the four previous sections focused on how microenterprises are barred from access formal credit and thereby must use prestamistas, the next two sections focus on the benefits of prestamistas which give them a competitive advantage over formal institutions.

**Scale**

Ñuño, the teasing, boisterous beautician, actually gave me two reasons for soliciting the RD$5,000 loan from a prestamista instead of a bank. The primary is given below. She explained the rationale behind a one-time loan: “I went to the prestamista instead of the bank because it’s very little money for which to solicit a bank. In ADEMI or ADOPEM – it’s only 5,000 – I’d have to pay on it for a year, and I can do it in 46 days [with a prestamista]…Many times if you want large amounts you go to the banks; if you want small amounts you go to the prestamistas…they’re much more accommodating.” Although this quote supports the earlier idea of paying off the loan early, the twist with this particular loan is that the loan amount is very small – so small, in fact, that it is not worth trying to solicit it from ADOPEM.

Hence, a utility prestamistas offer is the scale to which they will loan. Like the owner of Colmado Sabio told me, “The prestamistas loan you what you need.” In one sense, the amount
could be towards the heavier end of the scale, ex. *prestamista* Chaso declaring he would loan Leo whatever he wanted, even up to 50,000 pesos. However, I received the impression, at least from microenterprises, that the amount was usually toward the smaller end of the scale.

Throughout my interviews I heard examples of RD$5,000 loans. Ñuñu, Esperanza, and Samón had loans of this amount and many other interviewees spoke about past loans that were for about 5,000 pesos. From the data I collected, when microenterprises take an informal loan from a moneylender it is for a very small amount of money – in the words of Ñuñu, too small to go to a formal source for.

**Rapidity**

In my interview with Ñuñu (since she was quite a conversationalist, our interview lasted for quite some time) I asked her why she uses *prestamistas* when she knows PROMiPYME offers a better interest rate. Earlier I mentioned the reason behind a one-time loan: it was too small of an amount of money to go elsewhere for. However, the general reason she goes to the *prestamistas* is because “they’re available…with BanReservas [PROMiPYME] you have to wait, it takes time to apply and receive your money…If I went to ADOPEM for 5,000 [pesos], I’d have to wait one or two weeks for money. With a *prestamista* I have it in my hands tomorrow.”

Microentrepreneur Señora Esperanza did in fact have to wait a week to receive her loan from ADOPEM (though at 80,000 pesos it was for much more than Ñuñu’s example). Besides this, she has another loan for 50,000 with ADEMI, for a grand total of RD$130,000 to finance her small *colmado-fantasia*. Besides offering a small variety of foodstuffs and everyday domestic supplies like the usual *colmado*, she sold Avon supplies, perfumes, and personal beauty products and thus the *fantasia* role. He husband had his own business too, as a *prestamista*. Tongue-in-cheek, I asked if he loaned to her. Smiling, she replied, “He gives me what I want.” It
is not, however, without price: for her current loan of 20,000 pesos he earns 8.38% per month in interest.\(^5\) “I have to pay him like any other client.” It depends on the situation, but in general for emergencies, i.e. time is of the essence, she goes to her husband for loans. He does not loan much (whether to many or in large amounts she did not specify) but apparently he is always available for her.

The benefit of rapidity was also the reason Samón used prestamistas at certain times instead of formal sources. “For my business, a bank is better – if you have the time,” she told me late in the interview. However, some short time before our interview she did not have the time and sought an informal “weekly loan” of 5,000 pesos when she came up short on cash. I pointed out the differences between the interest rates of the bank versus the moneylender. She softly replied, “Yes, they are more expensive because they are faster.”

I did not encounter hesitancy and timidity in talking with the beauty salon microentrepreneurs’ interviews that I did with Samón. Perhaps the nature of their businesses determines some personal characteristics or vice-versa. In any case, like her fellow beautician Ñuñu, Scarlet was very expressive and personable as we talked outside of one of her two salons. She is a client of PyME BHD of RD$80,000. She used the loan primarily to upgrade her salons. Besides offering beauty services, ex. manicures, pedicures, facials, massages, styling, etc., she is also a retailer. She offers more than fifty lines of beauty products to clients and other salons, and she sells salon equipment, ex. hair-dryers, to other salons as well. These days in case she needs cash quickly she has her savings at PyME and friends to fall back on. She told me, “Banks are slow and require things; I have friends for fast loans.” This was not the case a year ago when she had to resort to a prestamista for about 9,000 pesos. She could not remember the reason for the

\(^5\) RD$1,720 for 15 weeks on a RD$20,000 loan \(\Rightarrow 8.38\% \text{ per month}\)
loan, but there was some small problem she needed to resolve and so she “went to the prestamista because of his rapidity. For example: if I want to remodel, I’ll go to a bank, but at times you need money now. If you can’t find a friend or someone in your family you go to a prestamista.”

Likewise, Leo, the client of the prestamista Chaso as well as PyME BHD, uses Chaso on a regular basis because of how quick he lends. Also like Samón, Leo is well aware he pays a much higher rate to Chaso than to PyME. In a perhaps ironic illustration, Leo illustrated one instance in which he used the moneylender: his note with PyME was coming due and he did not have the cash to pay it. Instead of paying late and perhaps hurting his standing with the bank, he borrowed from Chaso. However, this is not how he normally uses informal credit. Usually Leo uses the prestamista because “I can call him and say I need 5,000 [pesos] today and he comes by.”

The owner of San Francisco Academy indirectly provided a glimpse as to where prestamistas fit in his financing plans. He is satisfied with the performance of his business in primary education. Since its inception three years ago, enrollment had steadily risen to over two hundred pupils, prompting him to open another classroom building nearby. He was grateful to God he had not had a problem with liquidity in quite some time and had not used a prestamista recently. However, he knows other people who, at times, have to use them “because of rapidity. There are problems you need to resolve quickly – for example: if my child is sick and I don’t have the resources, I’ll get a prestamista.” Later he said, “I always have a small cash reserve when the students are behind…Thank God I’ve never had a problem with liquidity [cash flow].” Using a prestamista as a primary source of funds for his microenterprise is not even an issue; informal credit, in his mind, is for temporary cash shortages.
Señor Sabado, the colmado owner who led me to prestamista Pelo, was an interesting person to interview because he was in the process of trying to become a client of PyME BHD. In the meantime, however, he was a client of a Chilean bank with a high interest rate compared to PyME. We sat outside of his colmado in the street, which was quiet enough that we were uninterrupted except for a stray dog who found our discussion about interest rates engrossing. His plan was to use a large loan from PyME to pay off the RD$72,000 outstanding with the Chilean bank and invest the remainder in colmado merchandise. In spite of his formal loan consolidation, he has no plans to discontinue using his prestamista friend, Pelo, who can loan him five or ten thousand pesos quickly. His last dealing with Pelo was about eight months prior to our interview: “The prestamista loan was a quick loan to buy merchandise – it resolved my problem. They’re the fastest loans for people.”

In all of my interviews, the rapidity of the prestamistas was the primary reason they were utilized over formal credit sources. Regardless of how long the microfinance institutions actually take, the microentrepreneurs perceived that the prestamistas were much quicker. Thus, when they had a cash flow problem they used the prestamista to resolve their dilemma.

**Analysis of Microenterprises’ Rationale**

It seems that there is a decision-making process that precedes using a prestamista. As some of my interviews explicitly point out, there are a series of questions microenterprises must consider, consciously or subconsciously, before arriving at the decision to use moneylenders. When a microentrepreneur needs an infusion of capital, the first source they consider are interest-free loans, ex. personal savings, friends, family members, or suppliers. If these sources are unavailable (ex. their friends and family do not have sufficient capital or suppliers’ are unwilling to extend credit) they turn to commercial loans.
For salon owner Scarlet, the first resort is her savings account with PyME; her new friends constitute a secondary resource by lending small amounts (perhaps two or three thousand pesos) interest-free. Colmado Sabio, a client of FDD who reviles prestamistas because of a past experience, has another microenterprise, a small appliance repair shop; the surplus cash flow of one business may offset the deficit of the other. Felicia does not solicit any type of loan for her plate-lunch business because her primary supplier advances her small amounts of cash until she collects from her clients. These microentrepreneurs do not use prestamistas because they have interest-free alternatives when cash flow problems arise. Conversely, I did not find alternative funding sources for other microenterprises who use informal moneylenders (at least, not sufficient enough to satisfy their credit needs). For example, Sara and Juan have supplier credit like Felicia but only for a supplier’s specific product; the amount is not enough to compensate for an overall cash shortage in the business.

With no other interest-free options, microenterprises must turn to commercial loans to overcome their temporary cash dilemma. Microentrepreneurs want to pay the least amount possible for a loan. Formal sources are usually the cheapest source (though not always, as Table 4-2 demonstrates). However, formal credit may not be accessible for one or more of the four reasons listed above.

If it is available, then they must weigh the costs and benefits of one source of credit over the other, such as the higher costs of informal interest rates against the costs of not having cash to conduct business and personal transactions. Examples of these broad costs: not having merchandise for their customers, ex. a colmado not serving liquor for its weekend crowd, and losing short-term profits and perhaps long-term customers; not having sufficient funds for the house/property mortgage and risking a black mark in their credit score; or not being able to
conduct business at all, as in the case of an itinerant salesperson's *camioneta* (a small pickup truck) breaking down. In the face of such costs, some microentrepreneurs conclude the benefit of the quicker loan from the *prestamista* outweighs the higher cost.

The next section addresses some specific issues regarding the utility *prestamistas* offer. Towards the end of the chapter I contrast their utility over microentrepreneurs’ formal credit sources.

**Prestamistas’ Utility**

**Scale**

As Ñuñu so succinctly said, you go to banks for large loans and prestamistas for small ones. Of the microentrepreneurs I interviewed, nearly every informal loan they talked about was for 5,000 pesos (about US$160). Prestamista Yanqui told me ADEMI would not loan 5,000 because it is too small of an amount, yet he would loan 3- or even 2,000 pesos.

PROMiPYME does not directly offer “small” loans - amounts under, say, RD$50,000. To still reach less capitalized microenterprises, PROMiPYME distributes funds to other institutions, like ADOPEM, who loan smaller amounts like 10- or 20,000 pesos. This arrangement may serve as an analogy for the prestamista-microenterprise relationship: unable to loan at such small amounts because of institutional resource limitations, this market niche is served by another financier who, like a retailer, breaks the product (in this case, money) into smaller quantities to be sold at a higher profit margin per unit. This line of reasoning would serve as another explanation as to why prestamistas’ interests are higher vis-à-vis formal institutions.

**Rapidity**

As the data I have presented point out, it generally takes formal institutions longer to process a loan and actually make money available to the microenterprises than their informal counterparts. To briefly review some examples of the turn-around time for executing loans in
Chapter 3 of my thesis: PROMiPYME may take up a month or more, ADOPEM has a goal of two days but sometimes takes more than a week, and PyME BHD sets a 5 day maximum to process a loan request. The quick processing time for the private institutions is likely the result of increased competition in their respective markets (contrast PyME’s 5 days against state-program PROMiPYME’s month). The important consideration in this thesis is how long microentrepreneurs perceive it takes to receive loan money. Although ADOPEM’s 2-day goal puts it in league with prestamista Paula, if Sara and Juan are unaware they can receive such a quick loan cheaper, they will continue to use Paula for the rapidity she offers. In spite of the increasing competitiveness of formal lending institutions, all of the microentrepreneurs I interviewed perceived formal lenders took much longer than prestamistas to loan. Therefore, when they need a quick loan, they utilize the prestamista.

Concluding Remarks

When talking about informal loans, my interviewees’ answers were couched in terms of small, temporary cash shortages: “to resolve some problem,” “a little loan,” “only 5,000 [pesos],” “small, weekly loan,” etc. In this vein of thought, informal loans are not used as primary capital, i.e. for major expansion/renovation of the microenterprise site, for expansion of merchandise lines, etc. Instead, microentrepreneurs used these loans for working capital like replenishing existing stock, ex. a plate lunch kitchen buying food supplies for the week, or simply to have cash on hand perhaps for other transactions that necessitate cash, ex. a supplier who refuses to extend credit. Prestamista credit primarily serves to smooth out the cash flow shortages periodically experienced by microenterprises during the normal course of business.

Appendix O illustrates this point. It is a tabulation of the different sources of credit of each microenterprise I interviewed. The first five microenterprises are traditional colmados; the next five are primarily clothing retailers and personal healthcare retailers; Verduras Pelo and
Electrodomesticos Carmen are also retailers, though each in a different sector; the next two are the beauticians Ñuñu and Scarlet who offer beauty products as well as beauty services; the Colegio and the Escuela are both in educational services; Felicia and José both produce goods (one, food and the other, stainless steel works); the last five are, of course, prestamistas. I include a reference to this table here because it summarizes the points I make. I have arranged this table so there is a general trend from exclusively retailing (at the top) to exclusive services (towards the bottom). Retailers in general rely more on cash flow than service-oriented businesses. Not coincidentally, most of the retailers I interviewed used prestamistas, whereas most of the service-oriented microenterprises did not. The retailers also used a greater number of credit sources in general than service microenterprises. This underscores the market niche prestamistas serve, as indicated by my research.

Although in Chapters 3 and 4 creditors voiced their opinions on why microenterprises would use prestamistas over formal credit sources, I place greater weight on what the microentrepreneurs themselves told me. Thus, I found in the small group of microenterprises I interviewed, prestamistas were used primarily for the utility the offer over formal sources rather than because they are unknowledgeable and only think in the short-term (as was articulated by some). The next chapter, Chapter 6, summarizes and concludes the interviews and data collected in to provide an overall understanding of the thesis question.
CHAPTER 6
CONCLUSIONS AND RECOMMENDATIONS

In this concluding chapter I summarize the answers that I received as to why microenterprises use informal credit when cheaper, formal credit is readily available. In previous chapters I analyzed the answers from the point of view of each category of interviewees; here, I tie all of those answers together in a broad, unified theme in an attempt to give a global answer to the overriding question of the thesis. An additional research aim was to collect and present data on prestamistas, and I summarize the analyses of the chapter devoted to them. This section ends with recommendations for both future researchers and policy makers in the microenterprise development field, as well as a personal insight.

Thesis Research Conclusions

Six Reasons

I chose to interview microfinance providers as well as microcredit users to understand the perspective both from the credit suppliers as well as the credit users. The banks and NGO as well as the prestamistas gave explanations of why microentrepreneurs would use informal instead of formal credit, and their responses coincided with some reasons microenterprises provided. Altogether, the six different reasons told me, from the least common answer to the most supported answer, were:

- Unawareness of formal credit availability: there are some microentrepreneurs who simply do not know they are eligible for microfinancing and therefore do not solicit it. I found only one case of this, though different interviewees said this about others. I entered with the hypothesis that microentrepreneurs were aware of institutional sources of credit and lower interest rates. This proved generally true, but a distinction has to be made. They may have been aware of lower interest rates, but in at least some cases they may not know that they are eligible for loans.

- Flexibility, relaxed informality, and repayment schedules of prestamistas: they prefer to arrange loans with the moneylender either because of the repayment schedule or because
they are intimidated by the formal culture of banks. There were more responses pointing to the *prestamista*’s flexibility than there were regarding formal-informal inhibitions.

- **Loan caps**: many microenterprises already had loans with formal sources and could not receive more credit until the current loans were paid in full. Unable to secure loans from other formal sources, they turned to informal sources.

- **Requisites**: there are minimum requirements to receive formal credit, namely collateral. Lacking this, microenterprises are unable to utilize formal sources.

- **Scale**: formal sources have minimum loan amounts; if a microenterprise needs less than that, they go to a moneylender who will loan very small amounts.

- **Rapidity**: many *prestamistas* can loan immediately or within hours, whereas formal sources may take from three days to three months. If a microentrepreneur must have the funds quickly they use moneylenders. I heard this from virtually every person I talked to, from ADOPEM to strangers I chatted with on the street.

The unifying theme of these six possible explanations is that there is some obstacle barring the microentrepreneur from using cheaper formal credit despite lower interest rates. The barrier could be a lack of time, cultural inhibitions, or needing a certain repayment arrangement. Regardless, the obstacle prevents them from using formal sources. Before going to a formal source the microentrepreneur would have tried to secure interest-free credit from friends or family members. If both of these lower interest rate options are closed to them, the next option for their credit needs is an informal moneylender.

It is important to report what was found; it is also useful, however, to note what was not found. Even though many interviewees said some microentrepreneurs do not realize the higher costs of the moneylenders, I did not meet any such moneylender’s client who was unaware of the costs. Felicia was unaware of microfinance programs, but she was aware that *prestamistas* charged a higher rate than conventional banks. Because I did not find any data pointing to an unawareness of the higher costs of informal credit, my hypothesis is supported.
Hypothesis Supported

The hypothesis was that microentrepreneurs are economically rational, i.e. they choose the option that gives them the highest economic benefit, and that there is some hidden utility in using the higher interest rate informal credit sources. Informants’ responses are consistent with this explanation. Working within the parameters of a specific situation, the only time I found microenterprises using informal credit instead of formal credit was when the formal source was unavailable.

Additional Research Aim Realized

As stated at the beginning of Chapter 3, “prestamista” is most often translated into English as “loan shark.” This term has particularly strong negative connotations in English, associated with violence, exorbitant or usurious interest rates, and predatory practices. The research herein was limited to only five prestamistas and the full range of behaviors and practices used by the larger body of Dominican informal moneylenders is unknown. However, based on the interviews of both prestamistas and their clients, neither the English translation of prestamista nor their vilification in literary references is warranted. On the contrary, their business practices are similar to those of the other microentrepreneurs interviewed. Like others whose microenterprise is a service-based business, prestamistas offer a service for which they charge a reasonable price based on rational considerations: the likelihood of repayment, the collateral guaranteeing the loan, the amount of money solicited, the liquidity and capitalization of the prestamista, and the length of the loan.

Besides their rationale in fixing interest rates, the data collected also reveal the place of the moneylender in their communities. Rather than an imposing figure presiding over the informal economy of their neighborhood, my respondents were as integrated into the community as the microenterprises they served; they were microentrepreneurs themselves, providing financial
services in the community. Like other microenterprises, the success of their business relies on prudence, skill and experience, and satisfied customers who will continue to solicit their services on a regular basis.

**Possible Prestamista Parallels**

Two historians in the 1970s published an article about two types of loansharking in American cities. They stated:

In the recent past, two distinct types of loansharking have flourished in American cities. The first . . . functioned with an appearance of legality. There is no evidence that these loansharks used violence for collection of debts. Rather, their effectiveness often involved persuading the borrower that the loan represented a legal obligation…In the event that a borrower failed to meet his payments, collection was attempted by threatening to inform [their] employer of the debt, by harassment of various sorts, or by filing a law suit. Such loansharks, so far as can be determined, had no connections with gambling syndicates or other “organized crime” activities.

The second type of loansharking made little or no pretense of legality. Instead, the understanding between lender and borrower was that, while the borrower would be expected to repay because he had promised to do so, the sanction of violence might ultimately be used. (Haller and Alviti 1977, 125)

It may be that the Dominican context is similar. That is, there may a group of *prestamistas* who have not used violence to collect money and prefer to use legal means to the extent they are able and there may be a group of *prestamistas* who do in fact use violence as a normal means of business. However, I find it curious that in six weeks of combing Los Alcarrizos and Santo Domingo I was unable to find a single incident of actual violence between a *prestamista* and their client, or even someone who had heard of such an occurrence.

In recounting the sporadic attention “loansharks” had received throughout the years, the two researchers remarked that the data collected during “the 1960’s [were] triggered by the ‘mafia’ scare of that period. Like so much ‘mafiology,’ [sic] the information probably exaggerates the level of violence and hierarchical organization, as well as the degree of Italian control. At any rate, the episodic nature of the evidence means that many of the generalizations
should be regarded as tentative” (127). I wonder if the situation in the Dominican Republic is much different in that the reputation of the prestamista has reached mythical proportions, and the reality is much less frightening and fantastic? In fact, I wonder if the shadowy tales surrounding the prestamista are not perpetuated by the moneylenders themselves so that they can rely more on the threat of violence than other, perhaps less reliable, collection mechanisms, thereby making it easier to collect bad debts?

**Hypothetical Continuum for Dominican Prestamistas**

Assuming that the actions prestamistas are purported to use, I can construct a continuum of tactics they may use to recoup their capital. From least aggressive to most aggressive those tactics are (1) legal action, ex. sending a notarized letter; (2) public humiliation, ex. railing against the client at their workplace; (3) seizure of collateral, physically or legally; (4) verbal threats of violence; (5) physically damaging client’s property; (6) physically harming the client; (7) killing the client. Some moneylenders will only go so far, such as seizing collateral, whereas other moneylenders do not have some of the options available to them, such as legal recourse. The pattern from the data I collected indicate that most Dominican prestamistas do not go beyond step four, verbal threats of violence, although it is possible there are prestamistas who go so far as steps five, six, and seven.

**Research Recommendations**

I suggest two primary topics for future research. The data presented on prestamistas in these pages constitute one the few formal studies of these moneylenders in Latin America, or at least one of the few which have been done. This means that to this day very little is known about them. Further exploratory studies of informal moneylenders need to be conducted to gain a general understanding of this special subset of microentrepreneurs. After the data have been synthesized, researchers could conduct further studies towards understanding the breadth and
prevalence of informal credit at the national level and throughout Latin America. A researcher has the choice of emphasizing qualitative case studies as was done in this thesis, or of gathering quantitative data on a sample of hundreds or thousands. Each method has its strengths and weaknesses.

The second research topic concerns the conduct of microenterprises that use the services of moneylenders. The snowball sampling method enabled me to gain access to a number of respondents within a short amount of time. However, the method’s limitation is that the data pool may not be representative of microenterprises in Los Alcarrizos or the country as a whole. I suggest a similar study, or even one using random-sampling, be conducted in another urban area, and yet another one in a rural area. The differences and similarities of the studies should indicate how far the findings of this thesis can be extrapolated as well to other settings.

**Microenterprise Development Policy Recommendations**

Although I have the Dominican Republic in mind when I make these suggestions, they could extend to other Latin American countries or even other regions practicing microenterprise development. “Policy” is not restricted to public policy; as this thesis demonstrates, there are a variety of actors in this field, from private banks and non-profit organizations to national and international agencies. The underlying idea of these recommendations is perhaps best summarized by Latin Americanist Gonzalez-Vega in a question-and-answer session with the United States Agency for International Development. In response to the question of whether the services provided by informal lenders were valuable, his replay was, “Absolutely, YES. For this reason, one should oppose the repression of informal financial arrangements. Rather than view informal financiers as “evil”, they should be seen as providers of valuable services demanded by

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1 See Appendix P for the full brief and additional comments by Professor Gerald Murray.
their clientele. Without these informal arrangements, in many cases these services would not be provided at all and the welfare of the poor would be reduced” (USAID 1995, 1).

Integrate Prestamistas

As I have stated, my research on informal moneylenders is restricted to five non-random interviews as well as assorted interviews of prestamista clients. However, if the patterns that I detected are found to be valid for microenterprises and a sizeable portion of the moneylenders in general, then they are an important component in the microfinance field, lending to microenterprises when the comparatively well-capitalized formal sources cannot (or are unwilling to). Moreover, prestamistas are the principal source of credit for thousands of microenterprises. FondoMicro’s surveys in 1994 showed moneylenders were the principal credit source for 5.8% of all microenterprises; in 2000, 5.2%, serving nearly double the number of microenterprises as NGOs (FondoMicro 2003). As this figure only deals with the principal source of credit, it almost certainly downplays the overall role of prestamistas; if the surveys were to include supplementary sources of data, the prestamista’s role in microenterprise financing would become much more apparent.

Since they fill such an important niche in the microfinance field, albeit unbeknownst to themselves, prestamistas should be formally acknowledged for that role and incorporated into future microfinance schemes. As I demonstrated, one component of the moneylenders’ interest rates is the cost of capital. If they could obtain capital from formal microfinance sources – as other microenterprises are able to – they would be able to offer lower rates to their own customers.

As Gonzalez-Vega points out, prestamistas are restricted to a relatively small geographic area (USAID 1995). That is, they chiefly operate within their own neighborhood (like four out of five of my interviewees). As an important part of their community in the informal economy, they
must know which microenterprises are credit-worthy and which are less likely to repay. Microfinance programs could use this social capital to further the development programs within the moneylenders’ operating areas.

**Legalize Prestamistas**

It is not a coincidence that the moneylenders who relied on written contracts instead of verbal agreements offered lower interest rates. With the added security of a notarized document, the *prestamista* at least feels they are more likely to be repaid. Even in the event of default, the moneylender has a formal claim to the collateral and does not have to resort to threats and “psychological pressure.” In contrast to this, moneylenders who operate on strictly oral arrangements feel less secure in the ability to recoup potential losses; certainly they cannot use a lawyer or other legal proxy, and thus an unpleasant confrontation is the only recourse.

If *prestamistas* were legalized they could use the judicial system to mediate disputes instead of relying on neighborhood lawyers or having to be their own collection agency. With the risk that comes with running an extralegal enterprise removed, *prestamistas’* interest rates would be lowered, benefiting their microenterprise clients.

It would be naïve to hope all moneylenders would completely comply with the law. Is not the same true of formal enterprises, including banks, who frequently do use predatory practices and charge truly usurious prices for their services or products? Granting *prestamistas* legality will not aggravate the abuses; it would more probably serve to reduce their frequency. The most important result might be that, with legal status, *prestamistas* would have access to formal credit sources and would be able to offer their clients, especially microenterprises, more competitive interest rates.
Create Quick-lending Programs

If some are uncomfortable with the thought of legalizing an activity that is viewed in formal circles as somewhat shady, then the formal lenders could incorporate some of the tactics of the moneylender. The overwhelmingly most frequent answer that interviewees gave to my overriding thesis question alluded to the advantage of the rapidity of *prestamistas*. To offer a cheaper solution to microenterprises when they need small amounts of capital very quickly, microfinance institutions could implement a quick-loan program to compete with informal credit providers. The program could complement a client’s current loan with the lender in that credit-worthiness would already be established, contact information recorded, and an on-going relationship serving to update the microenterprise’s status. The microfinance institution could offer a revolving credit account to be repaid quickly (and even perhaps at a higher interest rate than the longer-term loan in place). Although the formal institution would be taking a higher risk by advancing further funds to the microentrepreneur, it would be offset by the higher interest rate. The higher rate coupled with a short-term repayment date would discourage this arrangement from becoming permanent yet would allow the individual flexibility during short-term cash flow dilemmas. This type of lending program would directly challenge the *prestamistas*’ market niche; the additional competition may force them to lower their rates, further benefiting the microentrepreneurs.

**Personal Insight**

The most important personal lesson I take away from my thesis research experience underscores what my undergraduate professors tried to drill into my head: “Question everything! This is the heart and soul of learning!” My research took a radical turn when Sara’s *prestamista*, Patricia, walked into the doorway of Colmado del Sur. Until then, all I had known of *prestamistas* was that they were evil, they exploited people, they were to be feared, and above all
else, they were to be avoided at all costs. Whenever I told people in the Dominican Republic I was researching *prestamistas* I always got a look which said, “And what side of the moon did you say you were from?” Perhaps most moneylenders are indeed loan sharks and deserve the vilification they receive. However, I will always know that there are at least five decent *prestamistas* in Los Alcarrizos and I wish them, along with all the wonderful people whose paths I was fortunate to cross, all the success they so richly deserve.
Figure A-1. ADOPEM’s leaflet.
APPENDIX B
ADOPEM’S LOAN APPLICATION

Figure B-1. ADOPEM’S questionnaire.
Figure C-1. PYME BHD’s leaflets.
### SOLICITUD DE CREDITO / NEGOCIOS

**Nombre Oficial Junior:**

**Código Oficial Junior:**

**Código Campaña:**

**Oficina PYME BHD:**

**Fecha:**

**Deudor:**

**Fidador de:**

**Datos Generales**

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<td>D.S. Norte</td>
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**Vivienda Familiar:**

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**Datos del Negocio**

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<td></td>
<td></td>
</tr>
<tr>
<td>Otros:</td>
<td>RNC:</td>
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<td>Consumo</td>
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<th>Horas de trabajo, actividades principales:</th>
<th>Cuánto tiempo tiene el negocio en este sector:</th>
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<tr>
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<table>
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<th>Antes propias o de familias,</th>
<th>Prestamo de familias o amigos,</th>
<th>Prestamos con particulares,</th>
<th>Detalle de la cuenta:</th>
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</thead>
<tbody>
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<td>Ahorros propias o de familias</td>
<td>Prestamo de familias o amigos</td>
<td>Prestamos con particulares</td>
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<th>¿Cuánto gasta mensualmente en su y en su familia:</th>
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<tr>
<td>Alimentos R$</td>
<td>Vivienda (Arriendo) R$</td>
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<tr>
<th>¿Tiene usted o sus hijos, dependientes?</th>
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<th>Sí</th>
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<table>
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<tr>
<th>¿Cuánto gasta mensualmente en su y en su familia:</th>
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1. ¿Tiene usted a la patrona? | No | Sí |

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**Bienes del Negocio**

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| Tiene un título | No | Sí |

| Tiene un título | No | Sí |

| Tiene un título | No | Sí |

**Figure D-1. PYME BHD’s loan application, page 1.**
Figure D-2. PYME BHD’s loan application, page 2.
**DATOS DEL CONYUGE / CODEUDOR**

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<td>De dónde provienen sus ingresos?:</td>
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<td>Empleado Privado,</td>
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**DATOS DEL PRESTAMO**

| Productos Solicitados: | Préstamo Comercial, | Préstamo Personal, | Préstamo de Vehículo, | Linea de Crédito, | Creditline |
| Plazo: | Tasa: | Cuota: |
| Destino del Préstamo: | Gastos Personales, | Compra Equipos, | Otros, | Especifique |

**REFERENCIAS COMERCIALES, PERSONALES Y BANCARIAS**

**En los últimos seis meses, quienes han sido sus principales Suplidores?**

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**Referencias Personales:**

Nombre de un familiar que no viva con usted: |

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**Referencias Propietario local (Alquilado):**

Nombre: |

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**Referencias Bancarias:**

Tipos de Cuentas:

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<td>Banco:</td>
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| Tarjeta de Crédito: | Banco: | Tarjeta de Crédito: | Banco: |

| Ha tenido otros productos de crédito diferentes a los antes mencionados?: | No, | Sí, donde? | Cuál? |

**Comentarios:**

| Aprobación del Oficial de Neg. |
| Fecha: |
Figure D-4. PYME BHD’s loan application, page 4.
Figure E-1. Dominican Development Foundation’s loan application, page 1.
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<table>
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</tbody>
</table>

Certificamos que los datos contenidos en este formulario son correctos y autorizo a la Fundación Dominicana de Desarrollo -FDD- a investigar nuestros antecedentes y referencias comerciales o bancarias en forma directa o a través de terceros.

| FIRMA DEL DEUDOR | FIRMA DEL GARANTE | FIRMA DEL ANALISTA |
### HOJA PARA LEVANTAMIENTO DE INFORMACION

#### 1. ANALISIS DE LAS VENTAS

<table>
<thead>
<tr>
<th>a) PRINCIPALES PRODUCTOS O SERVICIOS</th>
<th>% DE VENTA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>100 %</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>b) TIPO DE CLIENTES</th>
<th>% DE VENTA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mayoristas</td>
<td></td>
</tr>
<tr>
<td>Distribuidores</td>
<td></td>
</tr>
<tr>
<td>Minoristas</td>
<td></td>
</tr>
<tr>
<td>Detallistas</td>
<td></td>
</tr>
<tr>
<td>Otros</td>
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<tr>
<td>TOTAL</td>
<td>100 %</td>
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<table>
<thead>
<tr>
<th>c) CONDICIONES DE LA VENTA</th>
<th>% DE VENTA</th>
<th>PLAZO</th>
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<tr>
<td>Contado</td>
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<td>Crédito</td>
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<table>
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<th>d) CALCULO DE LAS VENTAS MENSUALES</th>
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<td>Ventas</td>
</tr>
<tr>
<td>Altas</td>
</tr>
<tr>
<td>Medias</td>
</tr>
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<td>Bajas</td>
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<tr>
<td>Total</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>e) ESTACIONALIDAD DE LAS VENTAS</th>
</tr>
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<tbody>
<tr>
<td>Nivel de ventas en los meses de mayor actividad económica: $</td>
</tr>
<tr>
<td>Nivel de ventas en los meses de menor actividad económica: $</td>
</tr>
<tr>
<td>Indique los meses del año que tienen un mayor nivel de ventas:</td>
</tr>
<tr>
<td>Indique los meses del año que tienen un menor nivel de ventas:</td>
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#### 2. ANALISIS DE LAS VENTAS A CREDITO

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<thead>
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<th>Principales Clientes</th>
<th>Saldo</th>
<th>Plazo</th>
<th>Abono mensual</th>
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TOTAL $ $ $ 

#### 3. ANALISIS DE LAS COMPRAS

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<th>Forma de Pago</th>
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TOTAL $ $ $ 

100 % $
4. GASTOS

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<th>GASTOS FAMILIARES</th>
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<td>Alquiler</td>
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<td>Alquiler o cuota de la vivienda</td>
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<td>Agua</td>
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<td>Medicamentos y tratamientos médicos</td>
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<td>Agua</td>
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<td>Vigilancia</td>
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</tr>
<tr>
<td>Gastos de publicidad o promoción</td>
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<td>Escolaridad</td>
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<td>Gastos de papelería o desechables</td>
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Número de miembros del grupo familiar: _______ Edades: _______

Dirección de la Vivienda: ____________

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6. EFECTIVO

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<td>Bancos</td>
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7. INVENTARIO DE MERCANCÍA O MATERIA PRIMA

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<th>Mercancía o Materia Prima</th>
<th>Unidad de Compra</th>
<th>Costo Unitario</th>
<th>Existencias</th>
<th>Costo Total</th>
<th>Precio de Venta</th>
<th>Porcentaje de Margen Bruto</th>
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TOTAL

8. DETALLE DE ACTIVOS FIJOS

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TOTAL

Figure E-5. Dominican Development Foundation’s loan application, page 5.
HOJA DE ACTIVIDAD PARA ACTIVIDADES MANUFACTURERAS

<table>
<thead>
<tr>
<th>a) Inventario de Productos en Proceso</th>
<th>b) Inventario de Producto Terminado</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Productos en Proceso</strong></td>
<td><strong>Producto Terminado</strong></td>
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<td><strong>Cantidad</strong></td>
<td><strong>Cantidad</strong></td>
</tr>
<tr>
<td><strong>Costo Unitario</strong></td>
<td><strong>Costo Unitario</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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\[\text{\$}\]

\[\text{\$}\]

c) Cálculo de Costos

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<th>Unidad de Costo:</th>
</tr>
</thead>
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<tr>
<td>Materia prima</td>
<td>Unidad compra</td>
</tr>
<tr>
<td>-------------</td>
<td>----------------</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\[\text{Costo de Producción $}\]

\[\text{Precio de Venta $}\]

\[\text{Margen Bruto $}\]

\[\% \text{ Margen Bruto}\]

<table>
<thead>
<tr>
<th>Producto:</th>
<th>Unidad de Costo:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Materia Prima</td>
<td>Unidad compra</td>
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<tr>
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<td>----------------</td>
</tr>
<tr>
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</table>

\[\text{Costo de Producción $}\]

\[\text{Precio de Venta $}\]

\[\text{Margen Bruto $}\]

\[\% \text{ Margen Bruto}\]
APPENDIX F
DOMINICAN DEVELOPMENT FOUNDATION’S COLLATERAL AGREEMENT

Figure F-1. Dominican Development Foundation’s collateral agreement, page 1.
EL/LA DEUDOR(A) justifica su derecho de propiedad sobre los bienes muebles entregados como DACION EN PAGO mediante la presentación de las facturas de compra y en su derecho por tener la posesión continua de los muebles, la cual jura en este acto por lo que LA ACREEDORA hace aplicación de la máxima EN MATERIA DE MUEBLES LA POSESION VALE TITULO.

HECHO Y FIRMADO en dos originales uno para cada parte contratante.

En __________________________________ República Dominicana, a los _____________

díaz del mes de __________________ del año (200 __). 

POR LA FUNDACION

_________________________________________

POR LOS DEUDORES

_________________________________________

YO, ____________________________ Notario Público de los del número del ____________________________, CERTIFICO Y DOY FE que las firmas que aparecen en el presente acto fueron puestas en mi presencia libre y voluntariamente por los señores ____________________________

de generales que constan y quienes me aseguraron que esas son las firmas que ellos acostumbran usar en todos los actos de su vida pública y privada. En ____________________________ los _____________ días del mes de __________________ del año dos mil (200 __).

________________________________________

Notario Público
Figure G-1. *Prestamista* Paula’s receipt to client.
Figure H-1. Prestamista Yanqui’s business card.
APPENDIX I

PRESTAMISTA YANQUI’S LEGAL FORMS

"ACTO DE VENTA BAJO FIRMA PRIVADA"

ENTRE: Los abajo firmantes de una parte el Sr. ____________, dominicano (a), mayor de edad, portador (a) de la cédula de identidad y electoral No. ____________, domiciliado (a) y residente en la Calle ____________, No. ____________, Santo Domingo, R.D. quien para los fines del presente acto se denominará LA PRIMERA PARTE O VENDEDOR (A); y de la otra parte el (a) Sr. (a) ____________, dominicano (a) mayor de edad, portador (a) de la cédula de identidad y electoral No. ____________, domiciliado (a) y residente en ____________, quien para los fines del presente acto se denominará LA SEGUNDA PARTE O COMPRADOR (A).

SE HA CONVENIDO Y PACTADO LO SIGUIENTE

PRIMERO: Por medio del presente acto LA PRIMERA PARTE O VENDEDOR (A), vende, cede y transfiere real y efectivamente desde hoy y para siempre, con todas las garantías de derecho y sin impedimento legal alguno el vehículo que se describe a continuación:

SEGUNDO: El precio convenido y pactado entre las partes en la presente venta ha sido fijado en la suma de _____________ PESOS (RSD _____________ ) ORO DOMINICANO, suma esta que declara LA PRIMERA PARTE O VENDEDOR (A) haber recibido a su entera satisfacción de manos de la SEGUNDA PARTE O COMPRADOR (A), sirviendo el presente documento como recibo de pago descargo y finiquito legal.

TERCERO: LA PRIMERA PARTE O VENDEDOR (A) justifica su derecho de propiedad del vehículo objeto de la presente venta mediante la matrícula expedida a su favor por la Dirección General de Rentas Internas; por lo que mediante este mismo acto la PRIMERA PARTE autoriza a la Dirección General de Impuestos Internos a realizar el traslado correspondiente a favor del COMPRADOR (A).

CUARTO: Las partes que intervienen en este contrato se remiten a las formas del derecho común, para el fiel cumplimiento de lo pactado en el mismo.

HECHO Y FIRMADO DE BUENA FE, en Santo Domingo Oeste, Provincia de Santo Domingo, República Dominicana, a los _____________ (______ ) días del mes de _____________ del año _____________.

Vendedor

Comprador

Yo, _____________, abogado notario público para los del número del distrito nacional, con estudio profesional abierto en esta ciudad, certifico y doy fe que las firmas que aparecen en el presente documento fueron puestas en mi presencia libre y voluntariamente por los comparecientes, quienes me han manifestado bajo la fe del juramento que estas son las mismas firmas que acostumbra a usar en todos los actos de su vida pública y privada, en Santo Domingo Oeste, República Dominicana, a los _____________ (______ ) días del mes de _____________ del año _____________.

Notario Público

Figure I-1. Prestamista Yanqui’s bill of sale form.
ENTREGA VOLUNTARIA

Yo, Sr., hago entrega voluntaria a S, R, M y/o R F, en caso de no cumplir con el pago correspondiente del vehículo detallado a continuación:

- Tipo: 
- Marca: 
- Modelo: 
- Año: 
- Color: 
- Chasis: 
- Pasajeros: 
- Registro y Placa No. 
- Matrícula No. 

________________________________________
Entregado por

Figure I-2. Prestamista Yanqui’s title transfer forms.
APPENDIX J
MICROENTREPRENEUR LEO’S INFORMAL CONTRACT

Figure J-1. Leo’s contract with unknown prestamista.
APPENDIX K
PRESTAMISTA PELO’S BUSINESS FORMS

Figure K-1. Prestamista Pelo’s blank contract.

Figure K-2. Prestamista Pelo’s blank receipt book.
Figure K-3. Example of *Prestamista* Pelo’s current contract with unknown client.
APPENDIX L
PRESTAMISTA PABLO’S CARDS

Figure L-1. Prestamista Pablo’s business card
Figure M-1. Prestamista Pablo’s blank checkbook
APPENDIX N
MICROENTREPRENEUR SAMÓN’S INFORMAL RECEIPT

Figure N-1. Samón’s receipt from unknown prestamista.
# APPENDIX O

## MICROENTERPRISES’ CREDIT SOURCE(S)

<table>
<thead>
<tr>
<th>Microenterprise/credit source</th>
<th>Saving</th>
<th>Friends/Family</th>
<th>Prestamistas</th>
<th>PYME RHD</th>
<th>ADOPEM</th>
<th>Other bank(s)</th>
<th>BanReceptas</th>
<th>PROSPYME</th>
<th>FID</th>
<th>Other sources</th>
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<td>x</td>
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x: current use  z: past use  o: future use

Table O-1. Tabulation of microenterprises’ credit source(s).
Is Informal Finance Desirable?
Q&A with Claudio Gonzalez-Vega, Ohio State University

Question: What are the most prevalent forms of informal finance?

Answer: 1) Suppliers of credit, 2) ROSCAs, 3) Moneylenders/pawnshop operators. The suppliers of credit are vendors who supply raw materials and inputs to microentrepreneurs and accept payment at a later date subject to agreed upon terms. In ROSCAs -- Rotating Savings and Credit Associations -- members contribute a regular amount each week or month, with group members taking turns receiving loans from the pool of funds. Moneylenders and pawnshop operators are typically individuals who use their personal resources to make loans, usually with high interest rates.

Question: Are the services provided by informal lenders valuable for their clientele?

Answer: Absolutely, YES. For this reason, one should oppose the repression of informal financial arrangements. Rather than view informal financiers as "evil", they should be seen as providers of valuable services demanded by their clientele. Without these informal arrangements, in many cases these services would not be provided at all and the welfare of the poor would be reduced.

Question: Are the services provided by informal lenders sufficient from the perspective of their clientele?

Answer: In many circumstances, the answer is NO. Informal lenders typically do not provide a sufficiently wide collection of services for which a demand exists (such as deposit facilities, money transfers, certain types of loans). Several of the "missing" services are those most demanded by the poor, particularly deposits. Moreover, informal financial services are either a part of a larger network of relationships (friends and relatives), which carry particular costs (difficult to measure), or are financially quite costly. It is not surprising, therefore, to observe a strong demand for semiformal and formal financial services that are cheaper and at the same time permanent and reliable.
Question: Are informal financial services efficient from an economic perspective?

Answer: Emphatically, NO. Informal financial arrangements are competitive only within small market segments, for financial transactions among agents who are in close proximity. Beyond the local boundaries, informal finance is "prohibitively expensive", and for this reason, one rarely sees informal financial mechanisms used by agents far away from each other. The information costs for screening and monitoring borrowers who are not in close proximity (same village, same occupation, same social group) are too high. In consequence, informal finance cannot contribute substantially to the reallocation of purchasing and investment ability in the economy, critical in order to increase the productivity of resources. This reallocation transfers command over resources from low to high-rate of return activities. Thus, informal finance is socially inefficient, and does not fully contribute significantly to economic growth. It leaves too many opportunities to improve resource allocation untouched.

Question: Can informal financial transactions be complemented with formal financial intermediation?

Answer: Potentially, YES. However, the task is not an easy one. The development of financial systems in many countries is an illustration of how this process takes place. Since the provision of formal financial systems is very costly, the process takes a long time and requires major improvements in infrastructure and institutions. To reach the poor requires, in addition, innovations in financial technology. Are these innovations possible? There are a few examples that suggest that this is the case under certain circumstances (which may not be present in every country). On the other hand, informal finance will never disappear, but it will occupy a shrinking niche in the market.

Question: How would you summarize your position about informal financial intermediation?

Answer: Valuable financial services are provided by informal arrangements. Economic development will require, however, the provision of additional formal financial services to replace or complement informal services. While understanding and appreciating the role of informal finance, the real challenge is to discover the appropriate combinations of technologies, organizations, and policies needed to develop national formal financial systems.

Sources:
- Discussion on "DevFinance" network, internet.
Commentary by Dr. Gerald Murray. Gonzalez-Vega makes an interesting point about the inherent inefficiency of informal financial services since they depend on face-to-face interactions and some personal bonds between lender and borrower. Even if we concede that point, he has perhaps missed a potentially important programmatic option. Formal financial institutions could multiply their outreach potential by lending to the prestamistas themselves, as was suggested in this thesis. The legalization and formal financing of neighborhood moneylenders would be a creative structural device for institutionalizing “face to face contact”. Viewed structurally, the moneylender would in effect, under this arrangement, become the outreach agent of the formal lending institution, providing an agility element and a face-to-face element simply not possible to the formal lending institution.

This is an “umbrella strategy” of institutional outreach that is increasingly used in the world of development. The growing importance of the NGO in the past decades has been in part due to their effectiveness in moving large amounts of resources down to the grassroots in a manner that international donor / lenders cannot do and that governments fail to do. The moneylender, if legalized and financed, could function as the “contractor” who provides agile money-disbursement and agile money-recuperation mechanisms for the formal lender. In the world of development, the NGO is not the employee of the donor / lender, but an autonomous enterprise. In like manner the legalized and formally financed moneylender would constitute an additional outreach mechanism for financial institutions, providing face-to-face services that not even the standard NGO can fulfill.

In short it is not any inherent “inefficiency” of the informal system that is at issue. It is rather unimaginativeness in the domains of theoretical analysis and program planning that prevents the realization of the full evolutionary potential of informal lending (Murray, personal communication).
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BIOGRAPHICAL SKETCH

Derek Brandon Lewis is a native of Pitkin, Louisiana. He earned his B.S. in business economics (summa cum laude) from Louisiana Tech University with a concentration in Spanish. Immediately thereafter he enrolled at the University of Florida as a master’s student in Latin American studies with a concentration in the business environment program. Derek married Amanda Elise Welch of Natchez, Mississippi, and they are preparing for their first child. He expects to graduate in May of 2007, whereupon he will continue to pursue a career in economic development.