MICRO-CREDIT IN MANAGUA, NICARAGUA:
ASSESSING THE EFFECTIVENESS OF SMALL-SCALE LENDING
AS A SOCIO-ECONOMIC DEVELOPMENT TOOL

by

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We accept this thesis as conforming
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ABSTRACT

Micro-credit is the practice of making small loans to people with little or no collateral to help sustain and develop self-employment initiatives. It has been hailed as a tool for poverty alleviation, economic growth, community development and reducing gender inequities. The acclaimed effectiveness of this development strategy has resulted in an international movement to replicate it around the world, raising significant questions for planners about the transferability of the model.

The purpose of the thesis is to examine micro-credit in the context of Nicaragua, seeking to determine the 'replicability' of the strategy and its socio-economic development potential, particularly for women. The study focused on five micro-credit programs operating in and around the capital city Managua. Research methods included a literature review, interviews with credit program administrators, with relevant government agencies, and with a sample of borrowers from each of the programs.

The study indicates that micro-credit is an appropriate development strategy in Nicaragua. A convergence of factors has made self-employment a vital part of urban survival strategies, particularly for women and their families. With little government support for this sector, non-governmental programs are timely. Micro-credit was also revealed as an effective strategy, helping to sustain self-employment in a country with few social safety nets. In some cases, it is helping people develop viable businesses.
The study nonetheless pointed to several limitations to micro-credit as a poverty alleviation strategy. People in the lowest income sections of the population were not as likely to benefit from the business development potential of credit and were most burdened by the cost recovery policies of the programs. Although women make up 80% of borrowers, few programs address women's need to move out of traditional occupations in which they experience inadequate income earning opportunities. As an economic development tool, micro-credit cannot address issues like market saturation, or lack of markets for crafts and other products.

Recommendations focus on ways that credit programs could improve their socio-economic development potential by expanding training and marketing opportunities for borrowers. The national government is encouraged to recognise the importance of the micro-enterprise sector and to remove legislative barriers to profitability. Finally, international development agencies are cautioned not to overemphasise the poverty alleviation potential of micro-credit, nor to promote cost recovery goals at the expense of providing low-cost loans to the poor.
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1. CHAPTER ONE: INTRODUCTION

1.1 Background

Micro-credit is an increasingly popular tool for poverty alleviation and social development around the world. From its roots in Asia in the early 1980s, it has spread to virtually every corner of the globe. It is estimated that nearly eight million people in developing countries are currently beneficiaries of micro-credit (Summit Declaration, 1996: 6). Micro-credit programs are part of a movement toward alternative development methods, ones which target people at the grass-roots, provide local control of development processes, and take gender into consideration. They are also part of a growing recognition of the vital economic role played by micro-enterprises in the urban areas of developing countries.

Micro-credit is based on the simple premise that small loans made to people with little or no collateral can help sustain and develop self-employment initiatives. Loans as small as forty dollars can help a woman to start a 'micro-enterprise' and generate a new source of income for her family. Loans to existing enterprises can sustain employment by providing working capital to buy products or materials. Credit may also help increase the profitability of existing ventures by allowing for the purchase of products at wholesale rather than retail prices.

Micro-credit is a strategy which has proved particularly effective in supporting women's socio-economic development. According to Sadeque, giving women access to economic resources can help increase women's decision-making power in the home (Sadeque, 1992: 22). Since women
tend to spend a higher percentage of their income on the household than men, lending to women can result in more significant impacts on family living standards, including better health and education for children (Sadeque, 1992: 21). Many micro-credit programs help develop women's leadership capacity, leading to a variety of community development initiatives (Summit Declaration, 1996: 10).

The acclaimed effectiveness of this development strategy has resulted in an international movement to replicate it around the world. In 1996, a Micro-Credit Summit was held in Washington, DC. The goal of the meeting was to bring together academics and practitioners to devise a strategy to “expand the reach of micro-credit to 100 million of the poorest families, especially the women of these families, by the year 2005” (Summit Declaration, 1996: 15).

1.2 Problem Statement

The movement to establish micro-credit as a development strategy world-wide creates significant questions for planners and policy makers. Is micro-credit appropriate in all contexts? Are certain features of micro-credit programs effective in one environment and not in another? What factors affect these dynamics? While a number of studies on micro-credit have been conducted in recent years, there is still a lack of adequate information about micro-credit in many of the settings where it has been implemented. This thesis focuses on a case study in Latin America, Nicaragua, examining the potential of micro-lending as a socio-economic development strategy in this context.
1.3 Research Questions

The research objective was addressed through the following questions:

1) How does micro-credit in Managua compare to similar programs elsewhere (i.e., is the strategy transferable)?

2) What are the strengths and limitations of micro-credit in the Managuan context for supporting socio-economic development, particularly of women?

1.4 Relevance of the Study

Micro-credit is increasingly prevalent in Nicaragua. At least 12 agencies are currently offering small loans using alternative lending methods. With an estimated 20,000 borrowers across the country, the number of people using micro-loans is significant. Over half of the borrowers live in the capital Managua, and about 70% are women.\(^1\) Despite the growing popularity of this strategy, a review of available literature reveals only one evaluative description of a Nicaraguan credit program.\(^2\) Nicaraguan credit organisations and international development planners need information about the nature and impacts of micro-credit in this context.

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\(^1\) All figures on Nicaraguan credit programs are based on original research for this thesis.

1.5 Outline of the Study

1.5.1 Issues in Evaluation

Measuring the effectiveness of micro-credit programs is not an easy task. While some evaluations of micro-credit programs have been conducted, the field is very new. There is no consensus on how to define program success, or how to measure borrower impacts. Some studies measure only program 'outputs,' using quantitative indicators such as the total outstanding loan portfolio and loan pay-back ratios to determine program success. Other evaluations broaden the scope by examining impacts on borrowers, but focus again on quantifiable data such as increases in income or business assets.

A relatively new focus is examining the social change wrought by programs, using qualitative indicators such as increases in women's confidence or participation in the community as a measure of success. Social impacts on the borrower and community are much more difficult to measure than quantifiable economic indicators, but studies of such indicators have revealed a wealth of information about the broader potential and effects of micro-credit programs. Recent studies emphasise the need to examine both economic and social impacts (Wahid, 1993; Anthony, 1995; Ireland, 1994). Research for this thesis sought to follow this trend, examining program impacts, and the effectiveness of procedures and systems in meeting the needs of borrowers.

The study focused in particular on whether or not programs are helping to reduce gender-specific economic and social inequities. As women's roles and decision-making power within the home and society differ from men's, they have different needs and resources from men. Assessment of
programs through a ‘gender’ lens can “act as a planning instrument that can help to achieve the desired effects for women, leading to improvements in their positions and prospects in life” (Gianotten, 1994: 11). Therefore, both men and women’s experiences with the credit programs were examined in this study in order to identify potential gender differences.

1.5.2 Evaluation Criteria

Table 1 outlines the evaluation criteria used in the study. It is important to note that these criteria were developed for the purposes of this study only, and may not reflect the objectives of the credit programs surveyed.

**Table 1: Evaluation Criteria**

<table>
<thead>
<tr>
<th>Program Structure</th>
<th>Economic Impacts</th>
<th>Social Impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>• provides access to capital for people who cannot obtain traditional credit, including the poorest of the poor</td>
<td>• sustained or new employment</td>
<td>• improved family well-being (e.g., better nutrition for children)</td>
</tr>
<tr>
<td>• financially self-sufficient</td>
<td>• increased income</td>
<td>• increased personal confidence</td>
</tr>
<tr>
<td>• capacity to increase borrower base over time</td>
<td>• more personal and business assets</td>
<td>• changed interactions with family/spouse</td>
</tr>
<tr>
<td>• ability to change in response to borrower needs</td>
<td>• expansion of market</td>
<td>• changed vision of the future</td>
</tr>
<tr>
<td>• meets gender-specific development needs</td>
<td>• acquisition of business skills</td>
<td>• increased community involvement</td>
</tr>
</tbody>
</table>

Several sources were used to develop the evaluation criteria. The Micro-Credit Summit Draft Declaration provided a list of features of successful micro-credit programs, particularly with regard

Finally, several feminist analyses of development projects provided criteria to evaluate gender-specific impacts of credit, such as changes to power relations within the household and meeting of gender-specific development needs (Moser, 1993; Berger, 1989a). For the purposes of this thesis, the term gender-specific development needs is based on Molyneux’s differentiation between strategic and practical gender needs (in Moser, 1993: 38). Moser describes strategic needs as those which arise out of women’s subordinate position in society; addressing these needs helps achieve greater equality. Practical needs are a response to an immediate necessity, but which do not challenge gender divisions of labour or power relations (Moser, 1993: 39-40). An example would be the need for clean water (practical) versus the need for greater control over resources (strategic).

1.5.3 Research Approach

The study sought to use a collaborative research approach. Historically, the design of research projects in developing countries has been undertaken by people from industrialised countries without consultation with local peoples. This top-down approach has resulted in mis-identified
priorities for action, and ineffective development programs. In an attempt to change this pattern, the objectives for this study were designed in collaboration with a local organisation, the Movimiento de Mujeres Trajabadoras y Desempleadas. Study findings were shared with the Movimiento to support their efforts to develop and implement an effective, nation-wide micro-credit program for women. The findings were also shared with other organisations which participated in the study. The research further provided resource material to assist a Canadian non-governmental organisation, Co-Development Canada, in fund-raising efforts for the Movimiento's loan program.

1.5.4 Research Methods

**Literature Review:** A review of available literature provided the contextual and theoretical background for evaluating micro-credit programs. In particular, the literature revealed many of the criteria and methods used to evaluate the programs from a gendered perspective. The review included resources on the main subject area of the thesis, case studies of micro-credit from around the world. Theoretical materials on the planning issues were examined, including small-enterprise development and gender and development. The case study context was reviewed through readings on the political, social and economic history of Nicaragua, with a focus on women and Managua. Finally, various sources on qualitative and quantitative social sciences methodologies were consulted, including feminist and collaborative methods.

**Field Research:** Field research in Nicaragua was conducted over a four-month period between August and December 1996. Interviews provided the main method of data collection.
Supplemental data included printed material from loan programs, such as annual reports, evaluations, brochures and policy manuals. Interviews were conducted with three groups of people:

1) **Credit Program Administrators:** Administrators of micro-credit programs were interviewed to learn about the objectives, structure and methodologies of their programs. Fixed questions were asked of each organisation to obtain analogous data, while open-ended questions allowed for some variation to identify themes and discussion points (see Appendix 2). Administrators were asked to break down figures by gender wherever possible.

2) **Loan Recipients:** People who had received at least one business loan from a micro-credit program were interviewed to learn about their businesses, experiences with credit programs, and the impacts of credit. Questions were mainly quantitative in nature, with some open-ended questions to allow for opinions and themes to emerge (see Appendix 3).

3) **Relevant Government Agencies:** An interview was conducted with the government agency which promotes micro-enterprise development (PAMIC) to learn about the general policy context for micro-credit.

### 1.5.5 Scope of the Study

The study concentrated on urban micro-credit programs operating in and around the capital Managua. Managua’s relative dominance in size and economic importance made it the obvious
choice for such a study. Preliminary interviews were conducted with the administrators of nine credit programs and the director of a related governmental agency to gain an overview of the sector. Five programs were then selected for an ‘in-depth’ examination. The administrators of these programs were interviewed again, and in some cases a third time. Questions were also asked of various other staff members, such as field workers and credit directors. A questionnaire was administered to borrowers from each of the five programs chosen for the in-depth study. Six to eight clients were interviewed from each program, for a total of thirty-five borrowers. The sample included both men and women for comparative purposes.

1.5.6 Contacting Interviewees

Preliminary contact with development workers in Nicaragua supplied a list of urban loan programs which provided a starting point for contacting potential interviewees. Letters were sent to administrators asking them to participate in the study. The letter offered a copy of the research findings in appreciation of their participation. The borrowers included in the client survey were identified and contacted through loan program staff.

1.5.7 Ethical Considerations

No adverse effects are anticipated from the study. Care was taken to protect the confidentiality of participating loan recipients. Code numbers were given to the interviews, and only cumulative data
and general descriptions of the experiences and perceptions of the interviewees are used in this
thesis and in the report distributed to participating loan programs.

1.6 Study Limitations

Limitations to the study should be recognised. Interviews were restricted to those loan
administrators and recipients available within the time frame of the study. The sample size of
clients from each program was relatively small. While clients were selected at random as much as
possible, in most cases they were chosen according to feasibility. As a result, the findings do not
represent all the credit programs operating in Nicaragua, and the clients are not representative of all
clients in the programs.

The study was conducted by a Canadian who lived in Nicaragua for four months. Interviews were
conducted through translators. As a result, some subtleties and nuances about the culture or
programs may have been overlooked. Therefore, this thesis is not intended to provide conclusive
findings of the programs. Rather, it provides an overview of micro-credit in Nicaragua and general
conclusions about the effectiveness of the programs.

1.7 Organisation of the Thesis

Chapter Two provides an overview of micro-credit as a development tool. A brief history of
micro-credit is outlined, including its theoretical underpinnings and the reasons for its growing
popularity. Next, the objectives and role of micro-credit are examined, using various case studies as examples. Finally, some of the controversial issues surrounding credit delivery and government intervention are examined.

Chapter Three outlines the political, economic and social context of the case study. First, Nicaragua's political history is explored. Second, its economic situation is placed in the larger Latin American context. Third, the importance of the urban informal sector as a survival strategy is examined. Fourth, issues of gender and employment are explored.

Chapter Four describes micro-credit models in the Nicaraguan context, based on data gathered from the interviews with the administrators of the five micro-credit programs included in the study. The background, objectives, characteristics, and credit policies of the programs are described. The chapter concludes with an summary of the findings, focused on comparing the programs to one another.

Chapter Five explores the socio-economic impacts of the credit programs, based on interviews with a sample of borrowers from each program. The chapter begins by describing the characteristics of the borrowers and their businesses. Next, borrowers' credit needs and experiences with credit programs are explored and the impacts of credit on borrowers' lives and businesses are examined. The chapter concludes with a summary of the program impacts, making comparisons between the credit programs and between men and women as much as possible.
Chapter Six analyses the field research findings. First, the transferability of micro-credit as a development tool is explored by comparing Nicaraguan models to literature on programs in other parts of the world. Second, the credit programs are evaluated using the criteria outlined in the methodology section.

Chapter Seven makes conclusions about the research findings and explores the planning implications of those conclusions. The chapter focuses on the strengths and limitations of micro-credit as a development strategy in the Nicaraguan context. Policy and program recommendations are developed, structured to be of use to micro-credit organisations and government policy makers in Nicaragua and international development agencies.
2. CHAPTER TWO: AN OVERVIEW OF MICRO-CREDIT

2.1 Introduction

Micro-credit is part of a movement away from the large-scale development projects that characterised the 1960s and 1970s. These projects have been criticised extensively for failing to fulfil promises of increased employment and better living standards (Berger, 1989a: 19). In many cases, target populations became even less self-reliant, depending instead on international aid to address local problems. Feminists argue that these projects particularly failed to improve women’s status and economic opportunities by neglecting to take gender into account.

Micro-credit schemes were first initiated in South Asia during the mid-1970s. The most famous examples are the Grameen Bank in Bangladesh and the Self-Employed Women’s Association (SEWA) in India. Alternative lending spread to Africa and Latin America during the early 1980s, mainly through the efforts of umbrella organisations like Women’s World Banking (WWB), FINCA and ACCION International.

ACCION, a private, US-based organisation, has been a prime mover in the Latin American context. Since 1984, they have provided funding to 52 affiliate organisations in 13 Latin American and Caribbean countries (Armacost, 1994: 2, Meyers, 1995b: 1). US AID has also been a significant funder of Latin American credit programs. One of the most famous examples of successful alternative lending in the Latin American context is the Banco Solidario in Bolivia.
Although there are many models and mechanisms used by micro-credit programs, some common features include:

- a philosophy of helping the poor to help themselves
- a particular focus on lending to women
- providing credit without collateral requirements
- a grass-roots approach
- achieving cost recovery
- support for community development processes

The next sections consider these characteristics in detail, and attempt to analyse why these traits have made micro-credit such a popular and effective development tool. The chapter concludes with a discussion of some of the primary debates in credit delivery and views on the role of government intervention.

2.2 Reasons for Micro-Credit's Popularity

2.2.1 Grass-Roots Approach

Traditional economic development philosophies maintained that the development of large-scale enterprises would provide more employment, thereby decreasing poverty. Decades of promoting such strategies have failed to deliver on the promise, however. “In 1995, the World Health Organisation reported that more than one billion people, or one-fifth of the world’s population,
lived in extreme poverty” (Summit Declaration, 1996: 1). Extreme poverty describes a situation in which household income is not sufficient to meet basic shelter and nutritional requirements.

Mohammed Yunus, founder of the Grameen Bank, is an economics professor who became disillusioned with traditional economic doctrine during the 1974 famine in his native country of Bangladesh. The Grameen Bank was initiated two years later on the principle that the poor know how to help themselves, if they are given the resources to do it:

"The problem with traditional approaches to poverty alleviation and development is that they fail to seek things at a grass-roots level... removal of poverty must be a continuous process of creation of assets by the poor at a steady rate" (qtd. in Mahmud, 1992: 2).

The Grameen approach fits with a larger shift in the development field from aid or charity models to an empowerment approach. “Aid programs have often failed to reach the poorest twenty percent of the people of the world” (Summit Declaration, 1996: 4). Micro-credit, on the other hand, has proven an extremely strategic way to get development funds directly to this section of the population, rather than relying on a ‘trickle down’ effect from larger projects. When the poor invest economic resources themselves, they see an immediate return in income and asset generation. This creates a foundation for self-determination rather than dependency.

Micro-credit programs can also allow for local control of development processes. Early development models have been criticised because priorities were determined in industrialised countries. While micro-credit organisations may receive their funding from an international donor agency, the programs are usually established and run by local people.
2.2.2 Changing Views of the Informal Sector

The emergence of micro-credit as a popular development strategy is closely associated with changing views of the urban informal sector (UIS). The UIS can be broadly defined to include many categories of employment and activity, from domestic and piece work to small commercial ventures. Historically, economists viewed the UIS as a negative feature of the traditional economy of developing countries which would disappear with 'modernisation' (Thomas, 1995: 35). When industrialisation strategies failed to provide sufficient formal employment in urban areas, however, many economists began to re-think the role of the UIS.

The result is a growing recognition of the UIS as a productive part of developing country economies. The particular focus has been on one component of the UIS, namely petty commerce and production. Increasingly referred to as 'micro-enterprises', these activities are viewed as significant sources of employment:

"In the cities of developing countries, a growing percentage of the working population—sometimes estimated as high as 50 percent—is engaged in micro-enterprise activity. [In other words]. . . small, unregistered enterprises provide work for substantially more people than 'regular,' 'legal ones do" (Kane 1996: 13).

From another perspective, micro-enterprises are seen as an important component of the survival strategies of the urban poor in times of economic restructuring or social upheaval. For example, street vendors may proliferate in a city experiencing rapid urbanisation, or in a country undergoing the transition from a socialist to a market economy. In both cases, the formal marketplace fails to
provide adequate employment, so people turn to 'self-employment' as a way to earn a living.

Micro-credit has emerged as an effective strategy for supporting both 'self-employment development' and 'entrepreneurial development.'

2.2.3 Self-Sufficiency Potential

Micro-credit is a popular strategy because administrative costs can be recovered through interest and service charges following an initial capital input. In fact, some credit institutions are moving beyond simple cost recovery to commercial viability. The Grameen Bank shifted from taking grants to attracting investors when they sold $163 million in bonds to Bangladeshi commercial banks in 1995 (Kane, 1996: 14). In a context of shrinking public resources, the option of self-sufficient NGOs providing social and economic development programs on a cost-recovery basis is very attractive for both governments and international donor agencies.

Self-sufficiency is also attractive for the credit institutions themselves because it means they can operate autonomously from international or governmental aid agencies. In addition, it increases the development potential of the program as they can reach an ever increasing number of people without additional inputs of funds. With beneficiaries of micro-credit already numbering in the millions, development analysts believe that micro-credit strategies have the potential to reach the poor on a highly significant scale (Summit Declaration, 1996: 8). By 1995, the Grameen Bank alone had made loans to almost 2 million families in 35,000 villages in Bangladesh (Meyers, 1995a: 2).
2.2.4 Ability to Address Gender Inequities

Well-planned projects can have positive impacts on the division of labour, access to and control over allocation of resources, and decision-making power in a society. Early models of development not only failed to meet women's needs, but often had a negative impact on their prospects and societal position. Women were either viewed as passive beneficiaries of large-scale aid projects, or integrated into projects which had a gender bias (Gianotten, et al, 1994: 8).

In the 1970s, women were recognised as a differentiated category from men, resulting in a new approach called Women in Development (WID). The premise of WID was that integrating women into existing projects would improve the effectiveness of the project. There was no consideration, however, of power inequities between men and women or of whether or not the project met the self-identified priorities and needs of women themselves.

In the last decade, there has been a growing recognition that project design and implementation must take gender into account. This new approach is often referred to as the Gender and Development (GAD) model. The use of the term 'gender' rather than 'sex' implies that men and women's differing needs are founded in social relations and institutions, rather than in biology, and recognises the issue of power:

"We have gradually come to realize that, if projects are to improve women's position, it is essential to have the different needs and interests of women and men, and the power relations between them, taken into account in the planning phase." (Gianotten, et al, 1994: 11).
Many micro-credit programs embody the GAD philosophy. Founded in 1979, Women’s World Banking (WWB) has been a leader in the movement to increase women’s access to credit and other financial services. WWB is based on “the premise that women need greater access to credit and other tools of the formal money economy in order to fully participate in the economic development of their countries” (Armacost, 1994: 1).

Using credit as a gender and development strategy is also based on the idea that access to credit broadens women’s income-generating capacity, thereby broadening their power base. Lee and Petersen’s 1983 cross-cultural study of 122 societies showed that income is a key factor in women’s decision-making power in the home, although traditional attitudes towards women and the structure of the family (multi-generational vs. nuclear) are also relevant (Mizan, 1993: 136).

2.2.5 Appeal Crosses Ideological Lines

In an article exploring micro-credit’s economic development potential, Servon suggests that the increasing emphasis on micro-credit as a development strategy is the result of recent shifts in both poverty alleviation and economic development fields (Servon, 1995: 1). From a neo-liberal perspective, traditional development models were flawed because they focused on charity rather than improving market conditions. Providing credit to small enterprise is seen as a way to develop the untapped economic potential of this sector, thereby allowing low-income populations to work their way out of poverty. From a social development perspective, micro-credit supports a process of ‘empowerment’ by providing marginalized groups with more economic opportunities (see
2.2.1. Micro-credit thus provides one of the few avenues for groups from both ideological perspectives to join together in promoting a common tool:

"For liberals, there is the opportunity to help disenfranchised people—women and the poor—to thrive. For conservatives, there is the opportunity for disenfranchised people to make their way out of poverty by virtue of hard work instead of charity" (Kane, 1996: 18).

Micro-credit’s roots in a range of ideological perspectives has resulted in two main types of micro-credit institutions. The first type are those which focus mainly on entrepreneurial development, and the second type are those with social development objectives. It is important to note, however, that these goals are not necessarily mutually exclusive, and programs exist which incorporate both objectives to a greater or lesser degree. Nonetheless, the primary philosophical foundation of a program will have significant implications for program design, including target groups, objectives and credit policies. These issues are explored in the next sections.

2.3 Target Groups

Micro-credit programs operating in urban areas generally target people operating micro-enterprises. For the purposes of this thesis, micro-enterprises are defined as small-scale vending and manufacturing enterprises, which are characterised by low capital inputs and one to five employees, usually unpaid family members. Programs with poverty alleviation objectives may

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3 This definition combines definitions used by Collinson, 1990 and Kane, 1996.
refer to their target population as the ‘the poor’ and even ‘the poorest of the poor,’ while those with economic development objectives may call their target group ‘micro-entrepreneurs.’

These differences in terminology may actually refer to two distinct types of micro-enterprises. Subsistence level businesses are those which provide an income, but have little potential for growth. Dynamic businesses are those with potential for expansion, sometimes called ‘those most likely to succeed.’ Credit programs with an entrepreneur development focus often target the latter, while programs with poverty alleviation objectives will necessarily target the former.

Many micro-credit programs target women in particular. Some programs lend exclusively to women, while others simply work to ensure that women have access to credit. This focus has developed over time. As Petersen writes, in a paper on women’s access to credit in Asia, “all successful programs in Asia, if not designed specifically for women, have evolved into programs that target women” (Petersen, 1993: 27).

One of the main reasons for this development is that women have been found to use loans most effectively. In fact, women have been found to invest money more wisely and to achieve better repayment rates than men (Thomas, 1995: 119). Mahmud, in an article about the Grameen Bank, argues that this is because women’s child-rearing responsibilities order their priorities and make them less likely to squander money than men (Mahmud, 1992: 2).

4 The Micro-Credit Summit Declaration defines the poor as “those people living below the poverty line established by each country” and the poorest of the poor as “those people in the bottom 50% of that group” (Summit Declaration, 1996: i).
Another factor is that women make up a high percentage of the people operating the smallest of the small enterprises, those which may be most in need of small amounts of capital. At the same time, they may face gender-specific barriers to accessing formal credit, including blatant discrimination on the part of banks, or a general lack of access to land and other forms of collateral (de Silva, 1992: ix).

Targeting women is also seen as the most strategic way to alleviate poverty, since they tend to have less access to economic resources than men. “Of the 1.3 billion absolute poor today —people living on less than $1 a day—over 900 million are women.” (Summit Declaration, 1996: 2). Single mothers or ‘female-headed households’ are often a key target group because they are considered to be among the poorest of the poor.

Mayra Buvinic’s ground-breaking 1978 study brought attention for the first time to the economic vulnerability of female-headed households, particularly among low-income sections of the population. Although there is some debate concerning the definition and usefulness of the term, it makes visible a category of disadvantaged households which are often ignored by policy or development projects. For the purposes of this thesis, female-headed households are defined as those households in which a woman is the main economic contributor to family maintenance, and those with no permanent male resident (Buvinic, 1978: 2).

According to Buvinic, female-headed households are at an economic disadvantage for two reasons. First, the number of potential income earners is less in households with a woman alone, particularly since a large ratio of female headed households are composed of young, unwed women with young
children. In other words, the dependency ratio is higher in female-headed households, resulting in
less cumulative household income. Second, women in general are at an economic disadvantage in
the marketplace due to sexual stereotyping (Buvinic, 1990: 7). A quote by Merrick and Schmink,
based on a study of the economic activities of female heads of household, reveals the magnitude of
the problem:

"A study in Belo Horizonte, Brazil, found that . . . 53% of female heads of
household work in the informal sector as compared to only 13% of the males .
. . [and that] women . . . tended to earn significantly less than male heads
working in the same sector" (qtd in Berger, 1989a: 4-5).

2.4 Role of Micro-Credit

Very small enterprises share a common lack of access to resources. Many cannot even afford to
buy products or materials to sustain their enterprise, let alone rent for a retail space or the cost of
becoming legally registered:

"Since market women's incomes are usually small, they seldom have money
saved and tend to operate on a day-to-day basis. This means that very often
they are forced to borrow money in order to keep their businesses going.
They also need to borrow money if they want to expand and compete with
supermarkets and other modern marketing systems" (Bruce, 1989: 124).

As highlighted in the Micro-Credit Summit Declaration, the amounts of money needed are too
small to be profitable for formal financial institutions. Furthermore, such institutions do not
consider micro-entrepreneurs to be good credit risks due to their lack of collateral (Summit
Declaration, 1996: 5). To operate micro-businesses, most people turn to informal sources of cash, including friends and family or informal money lenders. The latter charge exorbitant interest rates, sometimes up to 10% or 20% on a one-month loan (Bruce, 1989: 124). Such rates diminish the potential profits of the business and keep people in a cycle of poverty.

The role of micro-credit programs is to provide small amounts of capital at reasonable interest rates to individuals operating a micro-enterprise. Borrowers use loans as working capital to buy products in bulk, thereby increasing profits, or simply to keep a continuous supply of materials or merchandise, thereby sustaining their activities. The results are significant:

"A Catholic Relief Service evaluation reports that 97% of the members of two established village banks in Thailand found their income had increased by between US $40 and US $200 per year. Similarly, interviews with 380 FINCA village bank borrowers in El Salvador revealed that weekly income increases averaged 145%." (Summit Declaration, 1996: 9).

Micro-credit organisations vary in their attitude toward business start-up loans. Organisations which focus on entrepreneurial development, like ACCION International, will lend only to businesses which have already been established for a year. Since these businesses can be considered ‘most likely to succeed’, such a policy helps keep the organisation economically viable by reducing the potential for high risk loans.

SEWA, a program with social development goals, believes it is important to help women initiate income generating activities with micro-credit. In 1975 they made their first start-up loan to help a woman with no income buy chilli peppers and herbs to sell in the street. On her first day she
earned enough to feed her children and was able to repay her loan in less than a week (Kane, 1996: 14). Such a policy increases the social potential of a program by making loans available to the poorest of the poor. On the other hand, the high levels of competition in the informal sector mean it is difficult enough to sustain an existing business, let alone start a new one. The high failure rate of new businesses means business start-up loans may not be an effective poverty alleviation strategy, instead setting up borrowers for failure.

Micro-credit can result in community development in addition to self-employment development. In many programs, borrowers are members of solidarity groups. These groups can become a forum for discussing personal and community problems. With the support of the group, borrowers gain the confidence to take action on issues, leading to a variety of community development issues. Such projects have ranged from the provision of daycare services and playgrounds, to reforestation, water supply and literacy projects (Summit Declaration, 1996: 10).

Some micro-credit institutions specifically set out to facilitate social and environmental change. In the case of the Grameen Bank, for example, borrowers agree to live by a document known as ‘The Sixteen Decisions.’ The decisions promote the use of clean water, birth control, education of children, non-violence, and mutual support among community members (Srivinas, 1995a: 2). Again, the degree to which such elements are incorporated into a program depend on its ideological foundation.
2.5 Making Credit Accessible

Since formal financial institutions are not interested in lending to low-income groups, non-governmental organisations (NGOs) have been left to fill the credit gap using alternative lending practices and creating new types of institutions. One of the main features of such organisations is that they provide credit without collateral requirements. Whereas traditional financial institutions require guarantees for loans, alternative lending criteria must be developed to make credit accessible to low-income sections of the population.

One of the innovations in the micro-credit field is the 'peer lending' methodology. Borrowers form groups in which responsibility for each other's loans replaces the traditional need for collateral. Mutual responsibility results in peer pressure and support to ensure that everyone makes their loan payments in a timely manner. Individual loans may also be offered using such criteria as character and commitment to the program, or alternative guarantees like jewellery. The merits of each technique are discussed in the next section.

Making credit accessible to women requires specific consideration, since female micro-entrepreneurs have been found to be a special group within the larger category of micro-entrepreneurs (Berger, 1989a; Buechler, 1993; Bullock, 1994; Thomas, 1995). Women's businesses tend to be concentrated among a very few types of activities which are an extension of their domestic roles, such as making clothes, food production, petty commerce and personal services (Berger, 1989a: 12-13). In other words, the sexual division of labour is as evident in the micro-enterprise sector as in other parts of the economy.
As mentioned above, women tend to have smaller operations than men, with less remunerative potential (Berger, 1989a: 13). Women's smaller operations mean that they need access to much smaller loan sizes than the ones available from banks, or even from many development sector credit schemes. For example, studies of the Grameen Bank have shown that women's loans are about 13% lower than those of male borrowers (Petersen, 1993: 11).

Making credit accessible to the poorest of the poor requires very small loan sizes also, as well as simple application processes which take into consideration the fact that many borrowers may be illiterate (Summit Declaration, 1996: 11). Lack of experience with financial institutions or very formal program offices may also create barriers to credit access (Bruce, 1989: 26). There are a variety of other issues surrounding credit delivery which are addressed in the next sections.

2.6 Issues in Credit Delivery

2.6.1 Individual vs. Group Lending

The benefits of individual versus group lending has been the subject of much deliberation. Group lending has proven to be an extremely effective model for loan recovery. The Grameen Bank, which invented the approach, has a repayment rate of more than 98% (Wahid, 1993: 8). By comparison, commercial banks in Bangladesh experience about 70% repayment for agricultural loans and 90% for industrial loans (Mahmud, 1992: 3). These statistics are particularly amazing
considering that the majority of the Grameen loans were made to landless women from peasant backgrounds.

The Asociacion de Empresarias Mexicanas (ADEM), an affiliate of the WWB, has achieved similar pay-back rates in Mexico. Founded in 1992, ADEM made 138 loans in its first year, mostly to women in the urban commercial and service sectors, 80% of whom operated businesses with less than 5 employees. Although the average loan size was US $5,000, ADEM has seen a 97% repayment rate (Armacost, 1994: 2).

Group lending is considered the only way to make credit accessible to the poorest of the poor. Most analysts believe that group lending is the best way to reach women. In a report on women and credit prepared for UNIFEM, Buechler argues that many women do not have other forms of collateral because of the small size of their business operations, and the fact that in many countries they are either legally prohibited from owning property, or social structures prevent them from doing so (Buechler, 1993: 12).

In addition to providing much needed business credit, the potential social impact of peer groups has already been identified. Groups may provide a mutual support role and source of encouragement for members, helping to build confidence. This feature is particularly evident with female borrowers. If decision-making power is put into borrowers’ hands, groups can also help develop leadership capacity.
By allowing members to self-select and approve their own loans, the group model can reduce costs associated with screening loan applicants. Peer lending also “creates an incentive for group members to monitor one another” since no member can obtain further loans if one member defaults (Wenner, 1995: 265). This dynamic further reduces administrative costs associated with collecting loans.

The peer lending model is not always effective, however. A study on government-run development banks in Africa found that solidarity groups were hastily formed and borrowers felt no sense of obligation to each other (Buechler, 1993: 10). When the groups failed to re-pay loans, members would simply form new groups and the banks would lend to them again.

Effective group lending depends on several factors. Wenner, in an article on peer lending, argues that social and cultural cohesion tend to enhance the enforcement capability of the group (Wenner, 1995: 265). Groups should be allowed to self-select and should live in the same geographical area. Allowing groups to form on their own implies trust, and members will generally return this trust by repaying loans. Establishing savings/insurance requirements can help groups continue to function even if one member runs into personal or economic difficulties (Buechler, 1993: 10). In this scenario, each group member must put money into a pool that can be used to make loan payments in the case of such an emergency.

On the other hand, not all people wish to join a group. Responsibility for other people’s loans can place an added burden on people living at the subsistence level. High drop out rates associated with group lending can make it difficult for remaining members to obtain credit. There is also the
question of whether or not people have time to participate in a group, particularly since informal
sector businesses often require extremely long hours. Individual loans can create a sense of
independence in the borrower because they feel the organisation trusts them and believes in them
as a businessperson.

This thesis argues that both individual and group methodologies should be offered by micro-credit
programs. Group lending provides a good way to make credit accessible to the poorest sections of
the population, and can play an important social development role. Individual loans offer more
opportunity for independence and the option of larger loans, which are well-suited to the
development of dynamic enterprises.

2.6.2 Credit-Only vs. Credit-Plus

Another major issue in the micro-credit field is whether programs should offer credit only, or credit
plus other support services. Neo-liberals argue that all poor people need to ‘pull themselves out of
poverty’ is credit and other financial services. Poverty alleviation theorists believe that services like
business management training, daycare, marketing support, and organising vendors into trade
unions or cooperatives are also necessary program components.

Buechler identifies two strong arguments used by proponents of ‘minimalist credit.’ First, the
minimalist approach incurs lower costs, and may therefore be more financially sustainable.
Second, it is arguably better to build institutional capacity by becoming proficient in offering one
service before diversifying into others (Buechler, 1993: 4). Conversely, Servon argues that the idea that credit alone can alleviate poverty is one of the biggest myths in the micro-credit field:

"Many loan funds have been started and funded based on the assumption that lack of access to credit is the biggest need facing poor entrepreneurs. This may be true for some, but ... in reality, these potential entrepreneurs often come to micro-credit programs needing much more than just credit" (Servon, 1995: 13).

Servon goes on to emphasise the need for other kinds of training and support that can empower clients and help them make informed life decisions (Servon, 1995: 13). Although she is referring to the North American context, Servon’s comments apply equally well in a developing world context. Yunus, founder of the Grameen Bank, has found that “lending money does not help the poor individual unless at the same time you help bring out inner potentials that help [them] overcome seemingly insuperable odds” (Mahmud, 1992: 3).

Business training can help micro-entrepreneurs learn to manage their money and invest loans effectively. On-going technical assistance helps businesses overcome problems before they get too large, and may help expand markets. On the other hand, in her book on strategies to assist women’s ventures, Berger argues that training should not be required for all borrowers since it may be most effective for micro-entrepreneurs who have decided to expand or change their activities (Berger 1989a: 16).

Besides ‘supply-side’ inputs such as credit and training, it is important to consider ways to support microenterprises through ‘demand side’ measures (Thomas, 1995: 122). In layman's terms, this
means that marketing is also an issue. Micro-entrepreneurs tend to lack skills or necessary networks to successfully market their products. They also face high levels of competition due to the tendency to concentrate in similar types of activities. Credit programs may help borrowers develop marketing strategies. For example, they might link borrowers with NGOs who market handicrafts overseas or help develop trade shows and fairs.

Ela Bhatt, founder of SEWA, believes it is important to help illiterate and poor women organise (Bumiller, n.d.: 2). Since 1972, SEWA has helped thousands of self-employed women form trade unions. In fact, SEWA was originally a trade union and advocacy group for female market and street vendors, and only became a cooperative bank in 1974. SEWA therefore provides credit and savings services, but believes that the strength that comes from organising creates the biggest economic and personal changes for members. According to Bumiller, SEWA’s trade unions help increase members’ income because middlemen pay better prices, but they also help change the way that the women see themselves. A woman who picks up garbage from the street to sell begins to see herself as a legitimate worker and part of a community of similar workers (Bumiller n.d.: 3).

Another question is whether or not to link compulsory savings to credit. Buechler provides several arguments in favour of mandatory savings (Buechler, 1993: 6-7). First, loan repayment rates seem to be higher when credit is linked to savings. In part, this is because they provide a form of emergency insurance for loan payments. Second, savings increase the financial viability of the lending program by creating a source of capital which the organisation can use to make loans. Third, savings services encourage a strong relationship between the organisation and clients.
Fourth, poor people need access to safe ways to save money. In fact, many people eventually use their savings to invest in their business, reducing their dependency on credit.

This thesis argues that credit alone is insufficient to meet the needs of micro-entrepreneurs. Savings services, technical assistance and other forms of support are vital for micro-credit to serve as an effective socio-economic development tool.

2.6.3 Cost-Recovery vs. Subsidised Loans

Small-scale lending programs have generally taken two approaches. Earlier programs focused exclusively on poverty alleviation. Loans were often subsidised, and interest rates were minimal or non-existent. Subsidised programs often failed, however, because they were not taken seriously by borrowers. Loans were seen as grants and rarely repaid, leading the program to close its doors. More recently, programs have focused on cost-recovery, charging market interest rates or even more. These programs have met with far greater success in loan recovery. Financial self-sufficiency can also mean increased autonomy vis-à-vis international donor agencies because there is no need for additional grants once the program is established.

As a result, development analysts from a variety of perspectives now agree that cost-recovery is an important goal for lending programs. Critics throw in a word of caution, however, arguing that programs who use a cost-recovery approach see their role solely in terms of promoting entrepreneurship. They may view micro-enterprises as an engine of growth for the economy as a whole, rather than as a survival strategy. With the latter premise, programs may focus only on
businesses with expansion potential, ignoring the smallest of the small businesses. Berger argues that anyone who has managed to create self-employment for themselves should be supported in their efforts since:

"neglect of these small activities will have negative distributional consequences and negative consequences for other development goals, including improvement of the health and welfare of the family as a whole" (Berger, 1989a: 15).

This thesis argues that financial self-sufficiency is important, but that it should not be achieved at the expense of low income groups. In other words, cost recovery should be balanced with the need to provide loans at rates accessible to the poorest of the poor, particularly in programs with poverty alleviation goals.

2.7 Views on Government Intervention

A final area of debate concerns the role of government in micro-enterprise development. Governments all over the globe are feeling the pressure of fewer resources. They are looking for ways to get the most value for the dollars they spend. Micro-enterprise development offers one such avenue. In an extensive article on the rise of micro-credit around the world, Kane argues that "more investment in small, local industries . . . could bring economic and social benefits at far less cost [than investment in large-scale initiatives]" (Kane, 1996: 13).
Experience suggests that NGOs are more effective in delivering micro-credit than governments, however, since official aid agencies are too bureaucratic and formal to experiment and find appropriate styles and systems for specific contexts (Wahid, 1993: 213). Further, many neo-liberal analysts believe the most effective role for government is to simply remove legislation which may hamper the potential of the micro-enterprise sector to act as an engine of growth (De Soto, 1989 in Thomas, 1995: 29).

This thesis argues that the legal context of a country can definitely hinder the growth of the micro-enterprise sector. For example, police harassment of street vendors is clearly a barrier to profitability. In the case of women, civil codes, banking and labour laws may also need changing "to ensure that women's economic participation is expanded" (Berger, 1989a: 15). The thesis further argues that there is a role for government in actively supporting micro-enterprise development. Although governments may not be the best institutions to provide micro-credit services themselves, they can provide financial resources or offer other kinds of micro-enterprise support in partnership with the non-governmental sector.
3. CHAPTER THREE: CASE STUDY CONTEXT

Before moving on to describe micro-credit in the specific context of Nicaragua, it is important to understand the political and economic setting in which these programs are operating. Nicaragua is in acute need of strategies like micro-credit. With a per capita income of just US $340 annually, Nicaragua ranks as the second poorest country in Latin America (UNDP, 1996: 145). “The UN estimated recently that 75% of Nicaraguan households live below the poverty line and that 44% are in ‘extreme’ poverty” (Linkogle, 1996: 32). Up to 43% of the population was considered unemployed or underemployed in 1995 (Economist, 1996: 19).

Nicaragua also rates poorly on social development indicators. Where national development is often measured only by macro-economic growth, the Human Development Index (HDI) examines indicators like life expectancy, education levels and income. Nicaragua has the lowest HDI rating in Latin America (UNDP, 1996: 8). Many factors have contributed to this critical situation, including decades of civil war, a ten year economic blockade by the United States, falling world prices for agricultural exports, and internationally imposed fiscal restraint policies.

3.1 Political Instability and Armed Conflict

Central American countries like Guatemala, El Salvador and Nicaragua have been characterised by violent political conflict since the arrival of the Spaniards in the 1500s. Nicaragua’s early history was characterised by power struggles between dominant agricultural families based in Granada.
and Leon, and by recurring peasant uprisings. These struggles continued throughout the 19th century following independence from Spain in 1821 (Massey, 1987: 3).

For most of the 20th century, the country was controlled by the Somoza family dictatorship. General Anastasio Somoza Garcia took power from the traditional elites in a 1935 coup, and moved the national government from Leon to Managua. Somoza was followed in turn by his two sons, who managed to retain power despite on-going uprisings and guerrilla warfare.

The corruption of the Somoza dictatorship, and the family’s tendency to concentrate wealth in their own hands, angered Nicaraguans from all levels of society. One of the most infamous examples followed the devastating 1972 earthquake, which destroyed almost 50% of the housing in the capital city and 90% of its commercial buildings (Collinson, 1990: 57). Somoza used international relief money to contract a friend’s company to build market housing, which was then sold to those people who could afford it.

Such practices led to a wave of popular support for the Frente Sandinista Liberación Nacional (FSLN), a revolutionary army popularly known as the Sandinistas. The Sandinistas overthrew the Somozas in 1979. Their eleven years of governance were characterised by land reform policies, literacy campaigns and the organisation of economic activities along socialist lines, such as the founding of urban and rural cooperatives. The Sandinistas were generally supportive of micro-enterprise activities, building new markets in Managua to house vendors in clean and inviting environments.
The Sandinistas' goals of social change were severely constrained by US-backed war and trade embargo, however, both of which lasted almost ten years. Under the presidency of Ronald Reagan, the US government funded and armed the 'Contras', former members of Somoza's national guard who waged a guerrilla war from the northern part of the country throughout the 1980s. With as much as 45% of the national budget diverted into the conflict, social reforms took a back seat (Collinson, 1990: 65).

The Nicaraguan economy, heavily dependent on trade with the US, went into a steady decline throughout the 1980s during the trade embargo. Stories have been told of taxi drivers making fan belts out of old pieces of tires, and store shelves emptied as goods became less and less available. Meanwhile, inflation spiralled out of control, hitting a high of 657% in 1986 (Close, 1988: 81).

The war and economic problems led to decreased popular support for the Sandinistas. Finally, the government held an election in February 1990, calling for a renewal of their mandate. Nicaraguans opted for change, electing a coalition of parties headed by Violeta Barrios de Chamorro. Known as the UNO, the coalition was mainly conservative in ideology, but representing a wide range of positions within that spectrum.

The UNO's main goal was to re-instate a free market economic system, particularly with regard to private property. The government was hampered by on-going instability within its own ranks, however, which eventually led the coalition to dissolve. Chamorro relied on Sandinista support to maintain power for the second half of her term, leading to a softening of her conservative objectives.
Chamorro chose not to run in the most recent elections held in October 1996. The Liberal Alliance, headed by Arnoldo Aleman, won the election, while the Sandinistas stayed on as Official Opposition. Research for this thesis was completed in the two weeks following the election. Therefore, the policies and ideology of the current government were not the subject of detailed study. Nonetheless, even a cursory observation suggests that political instability is likely to continue under the current administration.

Aleman's main focuses are encouraging foreign investment, privatising any remaining state-owned companies, and the return of property appropriated/redistributed after the Revolution. Such policies are in direct opposition to the objectives of the Sandinistas, who declared Aleman's victory fraudulent and have already staged several boycotts of the National Assembly, a national strike, and other forms of protest designed to undermine the new government's authority. Recently, the two parties agreed to meet and discuss a possible resolution to these governance issues, but the talks have not yet resulted in any agreement.

3.2 Underdevelopment and Structural Adjustment Policies

While it is too much to describe the history of economic development theory and practice in Latin America, it is important to understand that the Nicaraguan situation is taking place in a larger context of Latin American underdevelopment and widespread implementation of Structural Adjustment Programs (SAPs).
The 1950s and 1960s were a time of widespread optimism about Latin American economies. International financial institutions loaned out billions of dollars for Import Substitution Industrialisation (ISI) programs intended to bring Latin America into the world economy on equal footing. Despite incredible investments in major projects, however, the majority of Latin American countries remain in an acute state of underdevelopment. In other words, their economies are characterised by a reliance on cash crops and extreme sensitivity to shifts in world markets (Cardoso and Helwege, 1992: 56).

The first cracks in ISI policies appeared during the 1970s. In many countries, urbanisation levels rose so high that newly emerging industries were unable to absorb the available labour pool. In others, ISI policies were insufficient to generate substantial growth in the manufacturing sector. The world oil crisis and sudden drop in prices of cash crops brought about Latin America’s debt crisis in the last part of the decade.

Unable to meet their debt payments, most countries negotiated debt restructuring deals with the World Bank and International Monetary Fund (IMF) during the 1980s. The agreements included the strict fiscal management policies known as Structural Adjustment Programs (SAPs) which were intended to encourage economic stability and macro-economic growth. These policies are sometimes referred to as Export Oriented Industrialisation (EOI) because of their focus on reducing trade barriers and encouraging foreign investment.
SAPs included such practices as:

- increased rates for public services
- eliminating tariffs to encourage trade
- devaluation of the currency to reduce trade gaps
- privatisation of government-owned enterprises
- reducing the number of government employees to reduce deficits

In ensuing years, it has been recognised that SAPs are effective strategies for improving macro-economic indicators such as stable inflation rates, but that the costs of the policies are unevenly shouldered by people living in the lowest economic stratas (World Bank, 1988: 1). Reduced social services and rising living costs associated with currency devaluation mean that people living at the margin of poverty may slip over the line, and the already poor begin to experience serious hunger and health problems.

In Nicaragua, the Sandinistas began implementing austerity programs in the late 1980s but with few major results. Unlike other Latin American countries, these policies were self-initiated, not part of a debt restructuring package. The UNO government continued the trend, negotiating the Enhanced Structural Adjustment Facility (ESAF) in 1993 in return for an economic recovery loan from the World Bank and grace periods on debt servicing (Babb, 1996: 32).

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5 This list combines elements of descriptions in Dolinsky, 1990: 82-83 and World Bank, 1988: 1.
The ESAF included the standard SAP measures described above, and were heralded by many economists as a success because of their effect on macro-economic indicators. Inflation rates were reduced to 20.2% by 1993 (UNDP, 1996: 173) and were subject to only minor fluctuations compared with earlier years. A significant dent was made in the external debt, and Nicaragua’s economy experienced growth rates of 3.2% in 1994 after a decade of zero or negative growth (Economic Commission, 1996: 70). Goods from the US flooded the Nicaraguan market and new malls and supermarkets began to emerge in the urban landscape.

Nonetheless, the majority of Nicaraguans are worse off today than they were ten years ago. Consistent devaluation of the local currency affected the value of savings, real wages and people’s ability to buy basic goods. Indeed, Nicaraguans reached their current per capita income in real terms before 1960 (UNDP, 1996: 3), yet the cost of most goods is considerably higher today. Furthermore, the so-called economic recovery failed to provide adequate employment opportunities. Open unemployment rose from 28% to 33% between 1993 and 1994 (IDB, 1995: 137) and combined un-and underemployment reached 43% by 1995 (Economist, 1996: 19).

3.3 Urban Survival Strategies

Rapid urbanisation, focused on Managua, has placed a particular strain on the capital’s ability to provide employment for its citizens. As the economic and administrative heart of the country, Managua has been the central focus of migration for several decades. Massey notes that in 1940, 7.5% of the nation’s population lived in Managua. By 1960, this number had increased to 15.3%
Urbanisation was exacerbated by armed conflict in the 1970s and 80s. By 1994, over 30% of Nicaragua’s population of 4,433,000 lived in Managua (UN, 1995: 25).

During the trade embargo and war, the informal sector was crucial to the survival strategies of Nicaraguan families in major urban areas. Table 2 shows that Nicaragua had the highest level of participation in the UIS of any country in Central America, with almost half the urban population relying on informal employment in 1985 (Sainz and Larin, 1994: 436).

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Guatemala (%)</th>
<th>El Salvador (%)</th>
<th>Nicaragua (%)</th>
<th>Honduras (%)</th>
<th>Panama (%)</th>
<th>Costa Rica (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of urban EAP in informal employment *</td>
<td>33.3</td>
<td>29.6</td>
<td>47.7</td>
<td>29.9</td>
<td>22.9</td>
<td>22.1</td>
</tr>
<tr>
<td>Urban women in the EAP **</td>
<td>29.7</td>
<td>35.4</td>
<td>34.0</td>
<td>30.5</td>
<td>37.7</td>
<td>32.0</td>
</tr>
<tr>
<td>Urban women in informal employment **</td>
<td>41.7</td>
<td>53.4</td>
<td>46.8</td>
<td>50.4</td>
<td>23.2</td>
<td>32.5</td>
</tr>
</tbody>
</table>

* EAP = Economically Active Population, figures refer to total employed urban population
** Data refers to metropolitan cities

Although no figures are available on the current levels of urban informal employment in Nicaragua, it can be inferred that they are still high, since economic policies have continued to dampen job opportunities. In particular, the importance of micro-enterprise in Managua’s economy was evident throughout the course of this study. The city exhibited very few formal stores and restaurants compared to the high numbers of food stalls along sidewalks, mobile vendors in

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6 Table Source: Larin and Sainz, 1994: 436
parking lots and at streetlights, small shops in the front room of houses, and numerous open air markets.

3.4 Gender and Employment

Berger notes that Latin American women have been affected differently than men by the changing economic and social landscape. First, economic modernisation has been identified as a cause of the breakdown of the traditional family, which left an increasing number of women with sole financial responsibility for their children. Second, the reduction in the value of wages and increasing male unemployment meant that more married women entered the work force as supplementary income earners. Third, women tend to make up the majority of public sector employees, so they were most impacted by lay-offs associated with SAPs (Berger, 1989a: 3).

Such dynamics are equally visible in Nicaragua. Women’s incomes are vital to the survival of the family in Nicaragua since women have long had the main financial responsibility for their children. Due to various historical factors, “the concept of the male breadwinner supporting a wife and children is fairly alien to most Nicaraguans... an estimated 60% of households in Managua are headed solely by a woman” (Collinson, 1990: 58). Even when a man is present in the household many women seek remunerated work to make ends meet. It is estimated that 34% of Nicaraguan women are economically active (Sainz and Larin, 1994: 436), but this number may actually be higher since much of women’s paid and unpaid work is not counted by official statistics.
Table 2 (above) shows that Nicaraguan women's participation in the informal economy is proportionately higher than their total participation in the economy. Due to domestic responsibilities and sexual stereotyping, which create barriers to formal employment, many women work part-time or in the home to earn money. Micro-enterprise, particularly petty commerce, is a common choice of activities. Many women, who were particularly impacted by public sector down-sizing in the early 1990s, have since turned to micro-enterprise activity as a way to maintain their families. As in other countries, women's businesses tend to have less income generating potential than those of men. Table 3 shows the gender division between subsistence level and dynamic businesses in Managua.

Table 3: Type of Enterprise by City and Gender of Owner

<table>
<thead>
<tr>
<th>City and Gender of Owner</th>
<th>Dynamic (%)</th>
<th>Intermediate (%)</th>
<th>Subsistence (%)</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men in Managua</td>
<td>15.4</td>
<td>29.0</td>
<td>55.6</td>
<td>100.0 (80)*</td>
</tr>
<tr>
<td>Women in Managua</td>
<td>7.0</td>
<td>22.5</td>
<td>69.4</td>
<td>100.0 (89)</td>
</tr>
<tr>
<td>Men in San Jose</td>
<td>23.1</td>
<td>35.3</td>
<td>41.6</td>
<td>100.0 (155)</td>
</tr>
<tr>
<td>Women in San Jose</td>
<td>15.2</td>
<td>39.4</td>
<td>45.5</td>
<td>100.0 (66)</td>
</tr>
<tr>
<td>Men in Guatemala City</td>
<td>7.3</td>
<td>35.6</td>
<td>57.1</td>
<td>100.0 (97)</td>
</tr>
<tr>
<td>Women in Guatemala City</td>
<td>3.2</td>
<td>24.5</td>
<td>72.3</td>
<td>100.0 (94)</td>
</tr>
</tbody>
</table>

* Numbers in brackets refer to sample size

Table 3 further indicates that the nature of micro-enterprise activity depends on the overall state of the economy. Costa Rica's capital is characterised by a much greater percentage of dynamic businesses for both genders, whereas those of Nicaragua and Guatemala are dominated by subsistence level activities (Larin and Sainz, 1994: 441). These features correlate to the fact that Costa Rica experiences a higher national growth rate than Guatemala or Nicaragua and has no

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7 Table Source: Larin and Sainz, 1994: 441
recent history of armed conflict (ibid). Such dynamics provide one argument for the national
government to play a role in micro-enterprise development. The thesis will return to this theme in
the final chapter, after exploring the role of micro-credit programs as a strategy to support the
micro-enterprise sector.
4. CHAPTER FOUR: NICARAGUAN CREDIT MODELS

This chapter describes the findings from interviews with the administrators of five micro-credit programs operating in and around the capital Managua. The focus is on comparing the characteristics, objectives and credit delivery techniques of the Nicaraguan programs with one another, and with micro-credit programs in other parts of the world.

4.1 Background and Objectives

Micro-credit began to appear as an urban development strategy in Nicaragua only in the last few years. The expansion of the strategy during this period has been significant. Preliminary field research revealed that at least 12 agencies are currently offering small loans in urban areas, using alternative lending methods. Interviews with the administrators of nine of these programs indicated as many as 20,000 borrowers nation-wide. Over half of the borrowers live in the capital Managua, and about 80% are women. Since the micro-enterprises have long played a role in the survival strategy of urban Nicaraguans, the growth of this development model can only be explained by the country’s transition from a socialist to a market economy.

The change of government in 1990 brought about a reduced social and economic development function for the State. Where only governmental development agencies had existed under the Sandinistas, non-governmental organisations (NGOs) began to develop in their place. Some NGOs had roots in former Sandinista agencies, while others were initiated by neo-liberal forces,
including the new government and local entrepreneurs, working to support the country's new economic model. State banks, which had focused on lending to urban and rural cooperatives throughout the socialist era, had to change their objectives to meet the new mandate. These dynamics are clear in the five micro-credit programs examined for this study.

4.1.1 The Banco Popular

The Banco Popular is a State Bank which established their Micro-Enterprise Program in 1992 to meet the credit needs of small and micro-businesses which do not have sufficient collateral for traditional credit, and to help with the development of their business. In other words, their main objective is entrepreneurial development. The program was initiated with technical assistance from the Holland Mission, a Dutch government agency.

4.1.2 CEPRODEL

The Centro para la Promoción de Desarrollo Económico Local (CEPRODEL) is a non-profit organisation founded by the Sandinistas in 1989 to promote housing development through the extension of credit. In 1991, CEPRODEL established a second credit program, this time focused on micro-entrepreneurs. The program was initiated and funded by a governmental organisation, Programa Nacional de Apoyo a la Microempresa (PAMIC), which had been recently established by the UNO government to promote micro-enterprises as an economic development strategy. The goal of the second credit program was to provide small amounts of money to micro-entrepreneurs.
in order to improve their economic situation—a combination of entrepreneurial development and poverty alleviation objectives.

4.1.3 CHISPA

The Centro de Créditos y Capacitación Humanística, Integral y Sistémica para Pequeña y Microempresa (CHISPA) is a Christian-based, non-profit organisation, founded in 1990 through a partnership between a Canadian non-governmental organisation, the Mennonite Economic Development Association (MEDA), and a Nicaraguan collective organisation comprised of owners of small industry, Camera Nacional de la Pequeña Industria (CONAPI).

CHISPA was established to support the development of small and micro-enterprise through credit and technical assistance, thereby creating new sources of employment and supporting the development of the national economy. More recently, CHISPA has created an additional objective of initiating community development processes through a new credit delivery technique called Communal Banks (see 4.5.7 below). CHISPA became an autonomous organisation in 1992.

4.1.4 FAMA

The Fundación para el Apoyo a la Microempresa (FAMA) is a non-profit foundation initiated by a group of Nicaraguan entrepreneurs in 1992. FAMA’s purpose is to promote national economic development through the extension of credit and capacity-building to the micro-enterprise sector.
In other words, the program has a mainly entrepreneur development focus, but the fact that they target ‘the poorest of the poor’ (see 4.3 below) implies some poverty alleviation objectives as well. FAMA was started with the help of technical advice and funding identification from ACCION International, an organisation described in Chapter Two.

4.1.5 The Movimiento

The Movimiento de Mujeres Trajabadoras y Desempleadas (the Movimiento) was founded in 1994 by several women who had been part of a Sandinistan organisation called the Women’s Union. It was established as an autonomous, non-partisan organisation. Their purpose is to help Nicaraguan women organise to eliminate inequality and discrimination in the areas of work and family. There are two focuses to the organisation: research and documentation on women’s employment issues, and training programs for women.

The Women’s Bank was initiated as a pilot project in 1996 to help women find alternative ways to develop employment, thereby promoting women’s independence, improving their standard of living, and supporting community development. In other words, the Women’s Bank seeks to move beyond poverty alleviation or business development objectives, focusing instead on creating social change and reducing gender inequities. The Bank was developed in partnership with a Canadian NGO, Co-Development Canada, which located funding and helped develop systems and procedures for the credit program.
4.2 Institutional Approaches

The five credit programs examined in this study may be loosely categorised according to the five main types of institutions being used around the world to deliver alternative credit:

4.2.1 Commercial Banks

The financial services of most commercial banks are not accessible to the poor. In a few cases, however, traditional financial institutions have created special mechanisms to reach micro-entrepreneurs (Buechler, 1993: 39). In Nicaragua, the Banco Popular is an example of this approach.

4.2.2 Non-Governmental Micro-Credit Networks

Many micro-credit programs are part of a network of credit-providing, non-governmental organisations. These networks generally have a head office which helps its affiliates obtain funding and technical assistance to operate their programs (Buechler, 1993: 40). International examples of such networks include Women's World Banking (WWB) and ACCION International. FAMA is an example of this model in Nicaragua, operating under the umbrella of ACCION.
4.2.3 Village Banks (VBs)

Village Banks (VBs) are community-managed credit and savings associations established to provide impoverished people, particularly women, with access to a range of financial services (Holt in Buechler, 1993: 49). FINCA developed the model and now has several such banks operating in Latin America and Africa. While none of the organisations in Nicaragua are actually Village Banks, both CEPRODEL and CHISPA have recently introduced a new credit delivery model, called Communal Banks, which correspond to this approach.

4.2.4 Individual Non-Governmental Organisations (NGOs)

Some NGOs offer micro-loans as one component of their operations. The Movimiento’s credit program is an example in the Nicaraguan context. The Movimiento had already been in operation for over two years when they decided to establish their Women’s Bank. It is important to note that this credit program is not actually structured as a Bank, despite the name (see 4.2.5 below).

4.2.5 Poverty Banks (PBs)

Poverty Banks (PBs) are legally registered as financial institutions, but have social development goals and focus on the disenfranchised sections of the population (Buechler, 1993: 40). PBs generally use credit delivery methods which are more aligned with NGO approaches than those of traditional banks. The Grameen Bank and SEWA are both examples of PBs. While there are no
such banks currently operating in Nicaragua, the Movimiento plans to eventually develop their credit program along these lines.

Table 4 provides a summary of the institutional characteristics of each of the five credit programs:

Table 4: Institutional Characteristics

<table>
<thead>
<tr>
<th></th>
<th>BANCO</th>
<th>CEPRODEL</th>
<th>CHISPA</th>
<th>FAMA</th>
<th>MOVIMIENTO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Affiliation</td>
<td>Dutch governmental agency</td>
<td>Nicaraguan governmental agency</td>
<td>Canadian NGO</td>
<td>United States NGO</td>
<td>Canadian NGO</td>
</tr>
<tr>
<td>Objectives</td>
<td>entrepreneurial development</td>
<td>entrepreneurial development/ poverty alleviation</td>
<td>entrepreneurial/ community development</td>
<td>entrepreneurial development/ poverty alleviation</td>
<td>social change/ reducing gender inequities</td>
</tr>
<tr>
<td>Institutional Approach</td>
<td>Commercial bank with micro-credit services</td>
<td>NGO which helps create village banks</td>
<td>NGO which helps create village banks</td>
<td>Non-governmental micro-credit network</td>
<td>Individual NGO with credit as one part of their operations</td>
</tr>
</tbody>
</table>

4.3 Target Groups

All five programs examined in the study target micro-businesses in the commercial, productive and service sectors (see Table 5). This was not always the case, however. Three programs targeted only commercial and service enterprises in the start-up phase of their operations (the Banco Popular, CEPRODEL and FAMA). These sectors still make up the majority of their clients, but all three have since expanded to include the productive sector.
One program (CHISPA) began by offering services to micro-industry exclusively. They later expanded to include commercial and service enterprises in order to enlarge their client base and to attract more female clients. The newest program (the Movimiento) plans to lend to all three sectors eventually, but has found that commercial and service enterprises are the most suitable clients for the pilot stages of the project because of the faster turn-around time of these loans (their funder requires full recovery of loans funds within the initial six month pilot period).

Table 5: Target Groups

<table>
<thead>
<tr>
<th></th>
<th>BANCO</th>
<th>2K HISPA</th>
<th>CEPRODEL</th>
<th>FAMA</th>
<th>MOVIMIENTO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographic Area</td>
<td>National coverage</td>
<td>Eight regional centres with focus on Masaya</td>
<td>Regions around Managua and two other cities</td>
<td>National coverage</td>
<td>Regions around Managua and two other cities</td>
</tr>
<tr>
<td>Locale</td>
<td>urban only</td>
<td>urban and semi-rural</td>
<td>urban and rural</td>
<td>urban and rural</td>
<td>urban and semi-rural</td>
</tr>
<tr>
<td>Economic Sector</td>
<td>productive, commercial, service</td>
<td>productive, commercial, service</td>
<td>productive, commercial, service</td>
<td>productive, commercial, service</td>
<td>productive, commercial, service</td>
</tr>
<tr>
<td>Sex</td>
<td>men and women</td>
<td>men and women</td>
<td>men and women</td>
<td>men and women</td>
<td>women only</td>
</tr>
<tr>
<td>Particular Focus</td>
<td>markets</td>
<td>micro-industry</td>
<td>markets</td>
<td>poorest of the poor</td>
<td>women with dependants</td>
</tr>
</tbody>
</table>

All five programs focus on urban businesses. The four older programs (CHISPA, CEPRODEL, the Banco Popular, and FAMA) began by offering services in urban areas only. While the Banco Popular still offers only urban services, the other three recently expanded to include rural and semi-rural clientele. The Movimiento targeted both rural and urban clients from the start. Nonetheless, the ratio of urban to rural clients is still very high in all programs (see Table 6).
Two of the programs operate on a national basis (FAMA and the Banco Popular), while three are regional in coverage (the Movimiento, CEPRODEL and CHISPA). The Movimiento and CEPRODEL focus on three cities each, all in the western half of the country. All of the programs except CHISPA have their head office in Managua. CHISPA is based in a small city outside the capital, Masaya, and offers credit in seven other nearby centres. Most programs have a heavy concentration of clients in the city where their head office is located. The Banco Popular is the exception, with only one-quarter of its clients located in Managua (see Table 6).

Table 6: Clientele

<table>
<thead>
<tr>
<th></th>
<th>BANCO</th>
<th>CHISPA</th>
<th>CEPRODEL</th>
<th>FAMA</th>
<th>MOVIMIENTO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban</td>
<td>100%</td>
<td>95%</td>
<td>95%</td>
<td>95%</td>
<td>100%</td>
</tr>
<tr>
<td>Rural</td>
<td>0%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>Main City</td>
<td>23%</td>
<td>63%</td>
<td>40%</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>Female</td>
<td>80%</td>
<td>72%</td>
<td>68%</td>
<td>76%</td>
<td>100%</td>
</tr>
<tr>
<td>Women w. Dependants</td>
<td>not available</td>
<td>70%</td>
<td>not available</td>
<td>not available</td>
<td>100%</td>
</tr>
</tbody>
</table>

The Movimiento is the only program which lends to women exclusively (see Table 5), but two other programs (CHISPA and the Banco Popular) state that they target women in particular. Two programs (CEPRODEL and FAMA) simply target micro-entrepreneurs, with no particular emphasis on reaching women. Nonetheless, the majority of clients in all programs are female (see Table 6).
Each program has a particular focus that makes it distinctive. FAMA focuses on reaching the poorest of the poor, while the Banco Popular and CEPRODEL specialise in credit for market vendors. CHISPA specialises in micro-industry, and the Movimiento offers credit to women with dependants only. CHISPA and the Banco Popular also offer larger loans for small businesses, in addition to micro-credit.

Some programs make higher risk loans than others. The Banco Popular and FAMA target only people who have been in business for more than one year. The Movimiento’s program was formed specifically to provide credit for business start-up, but they have found this a difficult objective to meet. CHISPA sometimes lends for business start-up, but this is not a general practice. Three of the programs will lend to mobile street vendors, although they are not a specific target group, including FAMA, the Movimiento and CEPRODEL. For example, FAMA allows one member in a solidarity group of three to be a mobile vendor.

4.4 Structure of Operations

4.4.1 Management Style

With the exception of the Movimiento, micro-credit programs in Nicaragua use field staff called ‘promotoras’ (promoters) or ‘asesors’ (advisors) to establish and maintain contact with clients. Field staff market the program to potential clients, help in the loan application and decision process, and provide follow-up technical support. They are responsible to either a Branch Manager or Credit Director, who is in turn responsible to an Executive Director. Field staff tend to be young
people with a background in economics or banking who are trained in the objectives and methods
of micro-credit. They are paid a salary, plus commissions based on the number of clients they
bring into the program and their clients’ repayment rates.

The Movimiento manages their credit program with only two staff members, called Technical
Advisors. One advisor is also the Credit Director for the program as a whole, while the other
manages operations in the two centres outside the capital. Both advisors are ultimately responsible
to the Executive Director of the Movimiento but act with a large degree of autonomy. Many of the
program operations are managed by volunteers organised into ‘Community Committees.’ The
Technical Advisors approach community leaders and encourage them to form a committee. With
assistance from an Advisor, the Community Committee then organises neighbourhood information
meetings, supports the formation of solidarity groups, and assists in loan application and decision
processes.

Some of the programs market their services more aggressively than others. Field staff at the Banco
Popular are trained to actively seek out clients by visiting small businesses in markets and
residential neighbourhoods to tell them about the program. CHISPA, FAMA, and CEPRODEL
also use staff to market the program to some extent, but rely mainly on ‘word-of-mouth’ to attract
new clients. The Movimiento depend on the Community Committees to advertise the program,
and does not distribute any bonuses or commissions to staff.
4.4.2 Size of Operations

The size of operations varies dramatically between programs. The Movimiento is a small pilot project with less than 70 borrowers and a capital pool of just over US $18,000. The Banco Popular is by far the largest operation, with over 6,000 clients and over US $4 million in outstanding loans. CEPRODEL is a medium-sized program with almost 2,000 clients, while CHISPA and FAMA have over 4,000 borrowers each. Interestingly, CHISPA’s capital pool is only one-third the size of FAMA’s, although they have almost as many clients, and is slightly smaller than that of CEPRODEL, which has half the number of clients (see Table 7). Thus, CHISPA issues a large number of loans, but the loans are smaller in size than those of the other programs.

Table 7: Size of Operations *

<table>
<thead>
<tr>
<th></th>
<th>BANCO</th>
<th>CEPRODEL</th>
<th>CHISPA</th>
<th>FAMA</th>
<th>MOVIMIENTO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Borrowers</td>
<td>6,276</td>
<td>1,810</td>
<td>4,737</td>
<td>not available</td>
<td>62</td>
</tr>
<tr>
<td>Total Capital Pool</td>
<td>unlimited</td>
<td>not available</td>
<td>$900,000</td>
<td>$3 million</td>
<td>$18,200</td>
</tr>
<tr>
<td>Reserve Policy</td>
<td>20%</td>
<td>3%</td>
<td>0%</td>
<td>not available</td>
<td>5%</td>
</tr>
<tr>
<td>Current Loan Portfolio</td>
<td>$4.2 million</td>
<td>$1.2 million</td>
<td>$900,000</td>
<td>$1.95 million</td>
<td>$14,000</td>
</tr>
<tr>
<td>Number of Offices</td>
<td>25</td>
<td>2</td>
<td>8</td>
<td>not available</td>
<td>2</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>340</td>
<td>15</td>
<td>40</td>
<td>145</td>
<td>2</td>
</tr>
</tbody>
</table>

* All financial figures are given in US dollars and the number of employees refers to those operating the credit program only (in cases where the organisation offers more than credit).

The number of offices and employees for each organisation corresponds to their geographic coverage and numbers of clients. As national programs, both the Banco Popular and FAMA have
high numbers of offices and branches located across the country. FAMA runs their program with 145 employees, however, while the Banco has at least 340. As regional programs, CEPRODEL, CHISPA and the Movimiento have a few strategically located offices. CEPRODEL manages their micro-enterprise credit program out of 2 offices with 15 employees, providing services in three urban centres. The Movimiento, likewise, has two offices for three urban centres, but has only 2 employees. CHISPA, with a far greater number of clients, has 8 offices and 40 employees.

4.4.3 Financial Structure

Internationally, micro-credit programs run by NGOs usually receive their initial funding through donations from international aid agencies. They are increasingly receiving funding through the private sector as well, including businesspeople and banks. Commercial banks and poverty lending banks use capital derived from client deposits. Nicaraguan credit programs follow this pattern. The NGO programs (FAMA, CHISPA, Movimiento and CEPRODEL) are funded through a combination of public and private sector resources, while the commercial institution (the Banco Popular) uses client deposits, including the savings of borrowers from the micro-credit program (see Table 8).

Interest rates are high in most programs as compared to commercial lenders. Nicaraguan banks charge approximately 20-25% annually on business loans. With the exception of the Movimiento, micro-credit programs charge between 24-60% annually, plus service charges (see Table 8). Of the five programs examined, all except the Movimiento consider themselves to be self-sufficient on the basis of these charges. The claim of self-sufficiency is somewhat misleading, however, since
several programs receive subsidies for a portion of their operations. CHISPA, for example, was recently granted a donation from US AID to help upgrade their office equipment. CEPRODEL’s training program is subsidised by PAMIC.

Table 8: Financial Features

<table>
<thead>
<tr>
<th></th>
<th>BANCO</th>
<th>CEPRODEL</th>
<th>CHISPA</th>
<th>FAMA</th>
<th>MOVIMIENTO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funding Sources</td>
<td>general and micro-credit clients</td>
<td>Austrian, Spanish &amp; Nicaraguan gov’t agencies, Central American banks and NGOs</td>
<td>Canadian religious organisation, Nicaraguan &amp; US gov’t agencies</td>
<td>Nicaraguan entrepreneurs, Austrian &amp; US gov’t agencies, Central American banks</td>
<td>Canadian credit union, Canadian gov’t agency</td>
</tr>
<tr>
<td>Funding Type</td>
<td>deposits</td>
<td>loans and donations</td>
<td>loans and donations</td>
<td>loans and donations</td>
<td>donations</td>
</tr>
<tr>
<td>Interest Rates</td>
<td>2-3% monthly</td>
<td>2 - 2.5% monthly</td>
<td>3 - 5.5% monthly</td>
<td>3 - 5% monthly</td>
<td>5% flat rate</td>
</tr>
<tr>
<td>Service Charges</td>
<td>4% flat</td>
<td>3% flat</td>
<td>2-6% flat</td>
<td>1% flat</td>
<td>0%</td>
</tr>
<tr>
<td>Cost Recovery</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
</tr>
</tbody>
</table>

Interest charges may also be misleading. The FAMA interest rate appears high, but the 5% rate is only charged to those clients who do not attend training courses. The 3% rate applies once training is completed, as an incentive to attend training. CHISPA’s charges are higher than most because they include a calculation for devaluation in the rate. These costs are ‘hidden’ in other programs, which set repayment according to the dollar. In other words, loans made in the local currency (cordoba) must maintain their original US dollar value upon repayment. The rapid devaluation of the cordoba means that borrowers actually pay as much as 1-2% more than is visible in the interest
rate. The Movimiento’s rates are by far the lowest. Interest is charged once only, at the start of the loan, rather than monthly, and no service charges are levied. The trade-off is that the Movimiento does not have the capacity to recover its administrative costs, although they state that this is a long-term objective.

4.5 Individual and Group Lending

All of the programs in the study use both individual and peer group lending models. In Nicaragua, ‘peer’ groups are referred to as ‘solidarity’ groups. The next sections compare the credit policies of the various programs with regard to these two lending techniques.

4.5.1 Solidarity Group Characteristics

Although Nicaraguan credit programs generally require five or more members per solidarity group, those operating in Managua found they had to relax the rules within the capital. Since groups appear to be weaker and more difficult to form in Managua, programs will allow groups with as few as three members. The Banco Popular sometimes allows groups to drop down to two members. Outside the capital, groups must be larger.

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8 Over the four month period in which this study was conducted, the cordoba decreased in value from SC 8.1 = US $1 to SC 9 = US $1.
All of the programs surveyed require group members to live or work in the same geographical area, and groups must form without assistance from program staff. Some programs, such as the Banco Popular, encourage members to choose people with the same type of business. Group members generally select a coordinator who is responsible for helping members complete loan applications, and for collecting loan payments from other members.

### Table 9: Solidarity Group Loan Features *

<table>
<thead>
<tr>
<th></th>
<th>BANCO</th>
<th>CEPRODEL</th>
<th>CHISPA</th>
<th>FAMA</th>
<th>MOVIMIENTO</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Size</strong></td>
<td>3-6 members</td>
<td>4 members</td>
<td>3-7 members</td>
<td>4-8 members</td>
<td>3-8 members</td>
</tr>
<tr>
<td></td>
<td>(average)</td>
<td>(average)</td>
<td>(average)</td>
<td>(average)</td>
<td></td>
</tr>
<tr>
<td><strong>Candidates</strong></td>
<td>people with no collateral</td>
<td>people with collateral under $59</td>
<td>people with little or no collateral</td>
<td>people with no form of collateral</td>
<td>people with no collateral</td>
</tr>
<tr>
<td><strong>Initial Loan Min.</strong></td>
<td>$59</td>
<td>not available</td>
<td>$35</td>
<td>$59</td>
<td>no minimum</td>
</tr>
<tr>
<td><strong>Initial Loan Max.</strong></td>
<td>flexible</td>
<td>$118</td>
<td>$235</td>
<td>$471</td>
<td>$529</td>
</tr>
<tr>
<td><strong>Subsequent Loans</strong></td>
<td>up to $1177</td>
<td>up to $588</td>
<td>up to $1294</td>
<td>up to 30% increase each</td>
<td>up to $529</td>
</tr>
<tr>
<td><strong>Average Loan Size</strong></td>
<td>not available</td>
<td>$353</td>
<td>$277</td>
<td>$282</td>
<td>$106</td>
</tr>
<tr>
<td><strong>Payment Terms</strong></td>
<td>flexible</td>
<td>fixed</td>
<td>fixed</td>
<td>flexible</td>
<td>flexible</td>
</tr>
<tr>
<td><strong>Collateral Required</strong></td>
<td>none</td>
<td>guarantees worth $59 or less</td>
<td>none</td>
<td>none</td>
<td>none</td>
</tr>
</tbody>
</table>

* All figures rounded off to the nearest US dollar value, based on Oct. 1996 exchange rate of C$8.5 = US $1

#### 4.5.2 Loan Sizes

Individual loans are considerably larger than solidarity group loans (compare Tables 9 and 10). Solidarity group members can graduate from group to individual credit when their loan size is
sufficiently high. The Movimiento is unique in this regard. Although their individual loans are
generally higher than group loans, loan size actually depends on borrower need and capacity to pay
rather than the lending model used. This system was devised so that women who needed very
small loans did not have to join a solidarity group. As a result, the Movimiento’s loan range is
much smaller than other programs. The maximum loan available through either group or
individual loans is 4,500 cordoba (approx. US $500). There is no minimum loan size, but most
women do not borrow less than 900 cordoba (approx. US $100). Thus, there is only a US $400
loan range.

Table 10: Individual Loan Terms *

<table>
<thead>
<tr>
<th></th>
<th>BANCO</th>
<th>CEPRODEL</th>
<th>CHISPA</th>
<th>FAMA</th>
<th>MOVIMIENTO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Candidates</td>
<td>businesses with</td>
<td>well-developed</td>
<td>businesses with</td>
<td>people with some</td>
<td>people with some form of collateral</td>
</tr>
<tr>
<td></td>
<td>sufficient</td>
<td>businesses with</td>
<td>some collateral</td>
<td>collateral &amp;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>collateral</td>
<td>guarantees over</td>
<td>higher capital</td>
<td>stronger business</td>
<td></td>
</tr>
<tr>
<td>Loan Min.</td>
<td>$118</td>
<td>$588</td>
<td>$294</td>
<td>$471</td>
<td>no minimum</td>
</tr>
<tr>
<td>Loan Max.</td>
<td>$11,765</td>
<td>$2353</td>
<td>$18,000</td>
<td>$4,118</td>
<td>$529</td>
</tr>
<tr>
<td>Average Loan</td>
<td>not available</td>
<td>$647</td>
<td>$765</td>
<td>not available</td>
<td>not available</td>
</tr>
<tr>
<td>Size</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment Terms</td>
<td>flexible</td>
<td>flexible</td>
<td>flexible</td>
<td>flexible</td>
<td>flexible</td>
</tr>
<tr>
<td>Collateral</td>
<td>equipment,</td>
<td>co-signer plus</td>
<td>co-signer,</td>
<td>equipment or</td>
<td>equipment,</td>
</tr>
<tr>
<td>Required</td>
<td>machinery or</td>
<td>equipment or</td>
<td>machinery</td>
<td>machinery</td>
<td>machinery or land</td>
</tr>
<tr>
<td></td>
<td>land</td>
<td>machinery</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* All figures rounded off to the nearest US dollar value, based on Oct. 1996 exchange rate of C$8.5 = US $1

Other programs begin group loans at a much smaller level than the Movimiento, and reach a much
larger amount at the individual level. CHISPA makes initial loans to group members as small as
300 cordoba (approx. US $35), while other programs start at about 500 cordoba (approx. US $60).
Subsequent loans may increase up to 10-11,000 cordoba (approx. US $1,200-1,300) before people move to an individual loan. Individual loans may reach a maximum of 20-35,000 cordoba depending on the program (approx. US $2,300-$4,100), while the Banco Popular and CHISPA also make large loans to small enterprise—up to 100,000 cordoba at the Banco Popular (over US $11,000) and 160,000 cordoba at CHISPA (approx. US $18,000).

Two models are used to determine loan sizes for solidarity group members. One program (CHISPA) uses a pre-determined table outlining the minimum and maximum loan size for each loan, starting with the initial loan and increasing in size for subsequent loans. The other four programs provide flexible loan sizes, within a certain range, depending on the client’s need and capacity to pay. In CHISPA, each group member receives the same size loan, based on the amount approved for the member with the least capacity to pay. In all other programs, loan sizes are determined for each group member individually, allowing for greater flexibility.

The Banco Popular originally used the fixed chart method for solidarity group loans, but found that flexible loan sizes better suited their clients. They also lowered the minimum amount at which group members can switch to individual loans since most clients appeared to prefer the individual method. The trade-off was that administrative costs increased with these changes, since each loan decision now requires more time.
4.5.3 Lending Criteria

Solidarity group loans do not require guarantees except in the case of CEPRODEL. The latter asks for guarantees worth less than 500 cordoba (just under US $60), ostensibly to alleviate the burden to other group members if one person does not repay the loan. In the case of individual loans, the most important criteria for loan size are the capacity to pay and the value of business equipment and other personal assets. Loan sizes tend to be much more flexible in this category.

Many programs evaluate the individual’s reputation in place of traditional forms of collateral. Field staff at the Banco Popular ask neighbours about their reputation, CEPRODEL staff ask the coordinator of the solidarity group about other members, and the Movimiento asks the Credit Committee about the character of the borrower.

4.5.4 Payment Terms

Payment terms for solidarity group members are flexible in some cases and fixed in others. CEPRODEL and CHISPA require all solidarity group members to make weekly payments on their loans. The Movimiento, Banco Popular and FAMA provide the option of weekly or bi-monthly payments to group members, depending on their cash flow. Payment terms for individual loans are flexible in all programs. Individual borrowers can generally choose to pay on a weekly, bi-monthly or monthly basis.
Loan terms tend to be longer for individual loans, due to the larger amounts involved. In the case of CEPRODEL, the intended use of the loan also affects the duration of the loan. For example, loans for investment in infrastructure or fixed assets have longer terms than working capital loans. These terms are available for both individual and group clients.

A final difference between group and individual loans are interest rates. With the exception of the Movimiento, all credit programs base interest rates on the loan method and type of business involved. Rates for solidarity group members are higher than for individual borrowers because the loans are smaller and therefore more costly to administer. Loans to commercial businesses have higher interest rates than service sector loans, and the productive sector has the lowest interest rates of all. The reason for this latter distinction was not investigated.

4.5.5 Loan Decision Process

Micro-credit programs in South Asia are structured to allow solidarity groups to approve the loans of members internally. Credit programs in Nicaragua are not using this model to the fullest extent, although some allow for more borrower participation in the loan decision than others. In three programs (FAMA, CHISPA and CEPRODEL) group members and individuals request their preferred loan size. Program staff use this information in the final loan decision, but the decision rests with the organisation, not the borrowers. Loans issued are often less than the amounts requested.
In the Banco Popular, field staff show group members how to determine what they are capable of paying, and the borrower and staff decide on the loan amount together. While the final decision rests with the Banco, the loan size rarely varies from the predetermined amount. The Movimiento is on their first cycle of loans. So far, they have provided the same amount to all borrowers (US $100) unless a higher amount is specifically requested. In the latter case, the Technical Advisor reviews the application and generally approves the amount.

In FAMA, the final loan approvals are made daily at meetings with all the field staff from one branch and their branch manager. In CEPRODEL and the Banco Popular the field staff member responsible for the client meets with the Credit Director individually. All meetings take place within 24 hours of application. CHISPA and the Movimiento have slightly longer decision-making processes. CHISPA’s field staff give all the gathered information to a credit committee made up of the general manager, credit manager, and, in the case of larger loans, the Executive Director as well. The credit committee meets weekly. At the Movimiento, the Technical Advisor first meets with the Community Committee to go over loan applications, then meets with the Movimiento’s Executive Director to make the final decision. These meetings take place bi-monthly.

4.5.6 Repayment Procedures

Nicaraguan credit programs face unique challenges with respect to loan repayment. Prior to 1990, when the economy was organised according to socialist principles, the government made loans to rural and urban cooperatives through state banks and governmental organisations. Since loans
were issued by the government, they were often regarded as grants, and repayment was not strictly enforced.

Micro-credit programs have therefore placed a large emphasis on teaching clients that loans must be re-paid. Program administrators indicated that this is particularly important for organisations involved in more than lending. The Movimiento, for example, has been careful to distance itself from its Sandinista roots to encourage loan repayment. They are also working to separate loan operations from the rest of the organisation by setting up separate offices.

All of the programs do ‘pre-credit chats’ to teach clients how to invest the loans and save money regularly for loan payments. Some encourage repayment by emphasising responsibility to other people, since repayment ensures that funds are available for future applicants. Many programs penalise late payments (see Table 11). The Banco Popular and CEPRODEL help ensure repayment by requiring solidarity groups to maintain an emergency fund. In CEPRODEL, for example, each group must save 10 Cordoba weekly to be used in case one member cannot make a loan payment (about US $1.20).

Table 11: Repayment Characteristics

<table>
<thead>
<tr>
<th></th>
<th>BANCO</th>
<th>CEPRODEL</th>
<th>CHISPA</th>
<th>FAMA</th>
<th>MOVIMIENTO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repayment Rate</td>
<td>95%</td>
<td>94%</td>
<td>95%</td>
<td>96%</td>
<td>92%</td>
</tr>
<tr>
<td>Gender Difference</td>
<td>not known</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>not applicable</td>
</tr>
<tr>
<td>Charges for Late Payments</td>
<td>2% monthly on balance</td>
<td>3% monthly on balance</td>
<td>6% monthly on balance</td>
<td>5% monthly on balance</td>
<td>0%</td>
</tr>
</tbody>
</table>
To facilitate repayment, Banco Popular staff visit their clients’ place of business to collect payments. In the case of solidarity groups, they visit only the group coordinator to collect for all members. As with other programs, clients can also go to a branch or office to pay. The trade-off is that service charges are much higher at the Banco Popular. CHISPA and the Banco Popular both have offices located in the markets where their clients work, facilitating convenient repayment.

In the case of missed payments, all the programs have a policy of sending staff to visit borrowers and find out the reason. For good reasons such as illness or a slow week, staff and clients negotiate a time when the payment will be made. Thus, the programs are far more flexible than traditional lending institutions.

Nonetheless, most programs are aggressive in cases where a second or third notice/visit must be made, or a client appears unwilling to pay. In such cases, the program will eventually pursue legal action and remove assets in lieu of payment. The Movimiento does not pursue this route for two reasons. First, they are a small operation and cannot afford the legal costs. Second, as a socially-oriented program, they believe that seizing assets simply impoverishes women further—the direct opposite of their goals.

The repayment systems appear to be working since all the programs have achieved very high levels of repayment (see Table 11). As in other parts of the world, many have found that repayment rates are higher for micro-loans than for traditional loans, and that women tend to have better repayment rates than men.
4.6 Communal Bank Lending

Two organisations (CHISPA and CEPRODEL) are using a new lending method called Communal Banks (CBs). Although the term appears to be unique to Nicaragua, the model itself closely parallels Village Banks in other Central American countries. CBs are initiated by the micro-credit programs, but are designed to become autonomous financial institutions by soliciting savings from bank members.

Approximately 15-30 people from a given neighbourhood or community form a bank. Members elect a Board of Directors, who are trained by program staff to manage the bank, including financial management and loan application assessment techniques. Loan applications are approved in conjunction with the staff at first, but the Board eventually makes their own decisions. All bank members are required to deposit monthly savings, and savings are also solicited from other community members. In this way, the bank eventually has its own source of capital from which to issue loans.

Like solidarity groups, CBs are designed for people with little or no collateral. In fact, CEPRODEL encourages solidarity group members to form banks once they gather enough members. Bank members guarantee each other's loans, and loan sizes are initially very small. In CHISPA, for example, loans start at 300-800 cordoba (approx. US $35-95). Subsequent loans depend on the amount saved by bank members.
In the case of CHISPA, CBs were designed mainly to achieve social objectives—they are seen as a way to strengthen members' ability to work together as a community, enabling them to eventually tackle community problems together. For CEPRODEL, they are viewed primarily as a business development tool—as a means of helping members administer community funds themselves in order to improve and capitalise their individual businesses. Both CHISPA and CEPRODEL developed Communal Banks to reach rural sectors, but use them in urban areas as well. So far, CHISPA has a 100% loan recovery rate from Communal Banks. Repayment rates were not available from CEPRODEL.

4.7 Additional Services

4.7.1 Business Training

All five programs surveyed offer business training in addition to credit services. In the Movimiento and CHISPA, attendance at training workshops is required for all borrowers, who learn basic accounting, marketing techniques and how to effectively invest their loans. In the Movimiento, borrowers can receive their loans before the training, but CHISPA clients must complete the training first. CHISPA offers longer training periods for individual than group members. Training is free in the Movimiento, and paid for through service charges in CHISPA.

The Banco Popular's training is also mandatory, but field staff go to the clients' place of business to do the training. Training is paid for through service charges on loans. FAMA does not require clients to attend training workshops, but deducts 2% from their interest rate if they attend a series
of five, two-hour classes. Training is not required for CEPRODEL clients; however the organisation offers a variety of workshops at a cost of 50 cordoba per course (about US $6).

4.7.2 Technical Advice

The Movimiento visits each client after their loan is dispersed to see how it was used and Technical Advisors are available on a drop-in basis at the office. FAMA field staff offer free technical advice when they visit clients. CHISPA visits clients regularly to help them assess their current business situation as compared to before, and give advice on problems. The Banco Popular staff offer technical advice to all clients when collecting payments. CEPRODEL staff visit all clients immediately following their first loan and make recommendations. After this, they visit clients only when there is a repayment problem, but will offer advice as needed.

4.7.3 Marketing Support

FAMA is the only program that indicated it is considering offering marketing support to clients. They plan to link rural producers with urban clients to help both get the best prices for their products and services. The Movimiento helps clients with marketing in a more informal way — when international groups visit the organisation, their tour includes the businesses of several borrowers. This study did not attempt to evaluate the effectiveness of these methods due to a lack of sufficient time.
4.7.4 Savings Services

Only the Banco Popular offers a savings program for micro-entrepreneurs. Each individual client must save 5 cordoba a day (US $0.60), while group members must save 4 cordoba a day (US $0.50). Other programs are restricted by federal laws which allow only financial institutions to solicit savings.

4.7.5 Social Development Programs

Credit is only a small part of the Movimiento’s programs. Some of their other programs include leadership training for women, training in non-traditional job skills, and gender workshops dealing with issues of sexuality, self-esteem, and domestic violence. CEPRODEL and the Banco Popular provide only credit services, but do have separate credit programs with social objectives. CEPRODEL provides credit and training services for marginalized groups, including technical training and business credit for unemployed women, training and credit for parents of street kids, credit for housing, and family development loans. The Banco Popular provides credit to the poorest of the poor for employment development and housing improvements in three communities outside Managua. This service is offered through the Banco Popular but administered and funded by the Swiss government.
4.8 Self-Assessment Procedures

All five programs do basic self-evaluations to determine if they are achieving their objectives. The most common technique is an analysis of program 'outputs,' using indicators such as loan recuperation, number of clients reached, average loan size, and the types of client businesses. Some programs, such as FAMA, CEPRODEL and CHISPA break down these statistics by credit model and gender to gain a better understanding of credit impacts. FAMA also uses the average loan size in solidarity groups to determine if they are reaching the poorest of the poor.

Only CHISPA and CEPRODEL have conducted formal studies to determine economic and social impacts on their borrowers, although FAMA is currently planning such a study. The other programs assess client impacts informally through direct contact with borrowers. The Movimiento in particular is small enough for credit staff to know each borrower personally and speak with them on a regular basis. The Banco Popular has not conducted an impact study, but they survey their clients for their responses to their services. CEPRODEL holds an annual assembly to ask clients' opinions on lending terms, etc. The Movimiento also holds an annual assembly for all women who consider themselves part of the organisation, not only beneficiaries of the loan program. At the assembly, women participate directly in determining the priorities and objectives for the next year's activities.

The programs differ in their degree of responsiveness to self-evaluation and borrower input. CHISPA has been extremely diligent and responsive in terms of self-assessment. Based on impact studies, they have changed their structure and credit delivery techniques radically to become
financially self-sufficient and to reach more clients, particularly women. The Banco Popular has also responded well to clients requests for larger loans and more flexible payment terms.

CEPRODEL, on the other hand, seemed rather bureaucratic and inflexible. They appeared to be more interested in developing and maintaining systems which were convenient for staff, rather than those which suited the needs of the borrowers.

4.9 Summary of Findings

Although all five programs examined in this study fall under the label ‘micro-credit’, there are crucial differences in institutional approaches, target groups, structure of operations, and credit policies. Institutional approaches range from NGOs which offer micro-credit exclusively (FAMA and CHISPA), to NGOs which offer micro-credit as one component of their operations (CEPRODEL and the Movimiento), to a commercial bank which has developed alternative lending services for micro-entrepreneurs (the Banco Popular).

The size of programs varies dramatically, from just under 70 borrowers (in the Movimiento) to over 6,000 (in the Banco Popular). All of the programs target micro-enterprises in the commercial, service and productive sectors, but focus on different sizes and types of businesses. Four of the five programs have recently shifted from a purely urban focus to include rural clientele, perhaps reflecting changing ideas about economic development priorities. Some interesting similarities between programs is that they all offer both group and individual loans, as well as business management training. Loan sizes, payment terms and training delivery methods differ between programs, however.
Many of the differences between the programs are rooted in their underlying philosophies. Three programs (the Banco Popular, FAMA and CEPRODEL) focus mainly on entrepreneurial development, although FAMA and CEPRODEL also incorporate poverty alleviation goals. One program (CHISPA) has community development objectives in addition to its primary focus on enterprise development. The fifth program (the Movimiento) is quite distinct from the others, offering micro-credit services as a means to social change and decreased gender inequities.

Target groups reflect these objectives well in most cases. While all five programs focus on urban micro-enterprises, FAMA, the Banco Popular and CEPRODEL target those micro-enterprises considered 'most likely to succeed', namely enterprises which have been established for one year. CHISPA will make loans for business start-up, but prefers to focus on those enterprises which have already proven themselves viable. The Movimiento makes loans only to women with dependants, reflecting their social goals. Loans in this program may be used for new or existing ventures.

Credit policies and management techniques are, for the most part, well-designed to meet program objectives. For example, the Movimiento has no minimum loan requirement, ostensibly making credit accessible for even the poorest of the poor. The Banco Popular has branches across the country and a large capital pool, reflecting their main objective of making credit accessible to as many micro-entrepreneurs as possible.
Some credit policies may be less effective at achieving program goals. CEPRODEL requires collateral from solidarity group members, which may act in contradiction to their poverty alleviation goals by creating a barrier to credit access for the poorest of the poor. Similarly, CHISPA charges higher service fees for solidarity group members than individual borrowers to off-set the relatively higher administrative costs associated with group lending. Such a policy is contradictory to poverty alleviation goals since these clients have the fewest economic resources. The Movimiento has difficulty providing loans for business start-up because such loans require longer repayment terms and their funder requires that all loans be recovered within the initial six-month pilot period of the program.

The organisations' differing objectives are also reflected in their financial structures. Although cost recovery is a stated goal for the Movimiento, their interest rates are not sufficient to cover administrative costs. Further, the Movimiento makes no attempt to recover costs for business training and relies on volunteers for a large part of their credit operations. The other four programs recover all administrative costs through interest rates and service charges, including sufficient funds to pay field staff a salary plus commission. The Banco Popular and CEPRODEL operate socially-oriented credit programs apart from their general micro-enterprise lending, illustrating a desire to maintain economically viable programs distinct from subsidised programs.
5. CHAPTER FIVE: THE BORROWERS

5.1 Introduction

This chapter discusses the findings from interviews with borrowers of the five credit programs included in the study. The purpose of the interviews was to learn about the borrowers’ households and businesses, their reasons for obtaining credit, their opinion of the credit programs, and the social and economic impacts of credit. Six to eight clients were interviewed from each credit program, for a total of thirty-five interviews.

The research process provided many interesting findings about credit needs and impacts of Nicaraguan borrowers. The findings are not conclusive, however, because the sample size from each program was not large enough to be representative of all clients within that program. Further research is necessary, therefore, to determine whether the findings hold true for a larger and more representative population. Nor can credit programs be compared to one another, since the client samples were not chosen on a consistently random basis. In fact, interviewees were selected randomly in one program only (FAMA), but even then they were chosen from among the clients of only one branch office. In all other cases, interviewees were selected by program staff according to whom they had to visit that day.

Some staff took the researcher to very poor neighbourhoods almost exclusively (the Movimiento), some focused on relatively middle-class neighbourhoods only (the Banco Popular and CEPRODEL), while others provided a mix of the two (FAMA and CHISPA). It was difficult to
determine if these differences represented real distinctions between the clientele of the programs or not.

In some programs, staff attempted to introduce the researcher to a range of economic activities (CEPRODEL, the Movimiento and FAMA), while one program presented her to market vendors and shop owners only (the Banco Popular), and the fifth focused mainly on productive businesses (CHISPA). To some extent, these differences were confirmed as real distinctions between the clientele of each program, since staff at the Banco Popular indicated a focus on markets and the commercial sector, and CHISPA has more micro-industry clients than any other program. Nonetheless, it is difficult to compare impacts between programs when business types are so varied.

Although the majority of clients in all programs are solidarity group members, interviews in some programs were conducted mainly with the recipients of individual loans (FAMA and the Banco Popular). In two cases, a mixture of individual and group clients were interviewed (CEPRODEL and CHISPA), while staff in another program introduced the researcher to solidarity group members almost exclusively (the Movimiento). Again, such differences are likely to have affected the credit impacts on borrowers for reasons other than those related to the program from which they borrowed.

Finally, borrower impacts also depend significantly on the number of loans received. In two programs, interviewees had all received their loans within the last six months (the Movimiento and
FAMA). In the other three programs, clients had received their first loan between one to five years previously (CEPRODEL, Banco Popular and CHISPA).

Wherever comparisons are made between programs, they are necessarily qualified by these factors. As much as possible, comparisons are only made where other observations, borrower comments or conversations with program staff, provided some support for the conclusions. At the same time, important themes emerged across programs which implies relevancy for many people, regardless of whether or not they are pertinent to all borrowers.

5.2 Borrower Characteristics

The demographics of the sample group corresponded well to the figures available from each program about their clients. Of the thirty-five interviewees, 71% were women and 29% were men. Most respondents were middle aged or older—76% were between the ages of 30 and 49 and 17% were over 50 years of age. Very few interviewees were young—none were under twenty years of age, and less than 10% were under thirty.

Education levels were higher than expected. While 40% had only attended primary school, 31% had been to secondary school, and 29% had a post-secondary education, including technical training or university (see Table 12). This finding indicates that many people seek work in the informal sector due to inadequate formal job opportunities, rather than insufficient education.
### Table 12: Demographics of Sample Group

<table>
<thead>
<tr>
<th></th>
<th>Banco (8)*</th>
<th>Ceprodel (6)*</th>
<th>Chispa (8)*</th>
<th>Fama (7)*</th>
<th>Movimiento (6)*</th>
<th>Total (35)*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sex</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Women</td>
<td>88% (7)</td>
<td>50% (3)</td>
<td>62% (5)</td>
<td>58% (4)</td>
<td>100% (6)</td>
<td>71% (25)</td>
</tr>
<tr>
<td>Men</td>
<td>12% (1)</td>
<td>50% (3)</td>
<td>38% (3)</td>
<td>42% (3)</td>
<td>0% (0)</td>
<td>29% (10)</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20-29</td>
<td>0% (0)</td>
<td>33% (2)</td>
<td>0% (0)</td>
<td>14% (1)</td>
<td>0% (0)</td>
<td>9% (3)</td>
</tr>
<tr>
<td>30-39</td>
<td>13% (1)</td>
<td>33% (2)</td>
<td>25% (2)</td>
<td>29% (2)</td>
<td>50% (3)</td>
<td>29% (10)</td>
</tr>
<tr>
<td>40-49</td>
<td>63% (5)</td>
<td>33% (2)</td>
<td>63% (5)</td>
<td>29% (2)</td>
<td>33% (2)</td>
<td>46% (16)</td>
</tr>
<tr>
<td>50+</td>
<td>25% (2)</td>
<td>33% (2)</td>
<td>13% (1)</td>
<td>29% (2)</td>
<td>17% (1)</td>
<td>17% (6)</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary or less</td>
<td>38% (3)</td>
<td>0% (0)</td>
<td>38% (3)</td>
<td>57% (4)</td>
<td>67% (4)</td>
<td>40% (14)</td>
</tr>
<tr>
<td>Some Secondary</td>
<td>13% (1)</td>
<td>17% (1)</td>
<td>38% (3)</td>
<td>14% (1)</td>
<td>17% (1)</td>
<td>20% (7)</td>
</tr>
<tr>
<td>Secondary degree</td>
<td>13% (1)</td>
<td>17% (1)</td>
<td>25% (2)</td>
<td>0% (0)</td>
<td>0% (0)</td>
<td>11% (4)</td>
</tr>
<tr>
<td>Post-secondary</td>
<td>38% (3)</td>
<td>50% (3)</td>
<td>0% (0)</td>
<td>29% (2)</td>
<td>17% (1)</td>
<td>29% (10)</td>
</tr>
<tr>
<td><strong>Marital Status</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Married w dpndts**</td>
<td>50% (4)</td>
<td>33% (2)</td>
<td>87% (7)</td>
<td>57% (4)</td>
<td>33% (2)</td>
<td>54% (19)</td>
</tr>
<tr>
<td>Married w/o dpndts</td>
<td>13% (1)</td>
<td>33% (2)</td>
<td>0% (0)</td>
<td>0% (0)</td>
<td>0% (0)</td>
<td>9% (3)</td>
</tr>
<tr>
<td>Single w dpndts**</td>
<td>38% (3)</td>
<td>0% (0)</td>
<td>13% (1)</td>
<td>14% (1)</td>
<td>67% (4)</td>
<td>25% (9)</td>
</tr>
<tr>
<td>Single w/o dpndts</td>
<td>0% (0)</td>
<td>33% (2)</td>
<td>0% (0)</td>
<td>29% (2)</td>
<td>0% (0)</td>
<td>11% (4)</td>
</tr>
</tbody>
</table>

* Numbers in brackets refer to size of sample group.
** The term ‘married’ is used here to denote both legally married and common-law status. ‘Single’ denotes divorced, separated and widowed as well as never married. ‘Dpndts’ is an abbreviation of ‘dependants,’ referring to children who are not earning an income.

About 63% of interviewees were married, the majority with dependent children. A total of 25% were single parents, but this average is misleading since 67% of Movimiento respondents were single parents, while the sample group from CEPRODEL included no single parents (see Table 12). It is important to note that all the single parents were women, except in the case of a widowed man with teen-age children. Just over 10% of interviewees were single adults with no children.

Only 31% of interviewees lived in extended households. Couples were just as likely to live with an extended family as single parents or single adults. The size of households ranged from one to ten people, with an average size of five. In the thirty-one households with children, the average number of dependent children was three.
5.3 About the Businesses

The vast majority of businesses examined in this study corresponded to the definition of micro-enterprises outlined in Chapter Two. They had less than five workers, and were run by individuals alone or with their families. Levels of technology were low in the case of micro-industry, and commercial merchandise and food were usually home-produced or purchased and sold in small quantities. There were exceptions, however, including several larger enterprises, and cases in which employees were non-familial.

5.3.1 Types of Businesses

Almost half the interviewees (49%) had small commercial enterprises including pulperias (small convenience stores located in front of the home) and market stalls. One quarter of businesses were in the service sector, including comedors (small food stalls) and tortilleras (tortilla makers). The other quarter ran micro-manufacturing businesses such as bakeries and hand-made leather products and clothing.

There were significant variations in the levels of sophistication between businesses, however. Some pulperias were in shacks with dirt floors, containing little more than a few rough shelves and baskets with wilting fruits and vegetables and a few packages of corn chips and candies. Others had cement floors, basic equipment such as a beat-up freezer or fridge, and a greater variety of products. In both cases, products were usually sold through a window with a grate, and customers could purchase one egg or a scoop of laundry detergent.
Only two or three interviewees operated quite sophisticated, walk-in stores with modern amenities and a wide array of products. Interestingly, Banco Popular clients were more likely to have this type of store than clients in other programs. It was unclear, however, if this was because the Banco had been more successful in helping clients to develop their businesses or because they are less likely to lend to people with subsistence level activities. From the philosophy and loan sizes of the Banco, the latter interpretation is more likely accurate.

Significant gender differences existed in the types of businesses operated. Women made up the majority of market vendors, selling clothes, household products, and meals. Outside of the markets, women operated mostly pulperias and comedors. Men engaged in commercial activities almost as much as women (40% of men vs. 52% of women), but tended to sell a wider variety of products. Men were more likely to have manufacturing businesses (50% men vs. 16% women), and seldom engaged in the service sector.

From observations of the businesses, it also appeared that the men tended to have more dynamic businesses than women. No men were interviewed who lived in a house with a dirt floor, and only one man appeared to be having significant difficulties keeping his ‘head above water’ in his business (a sandal maker). By contrast, at least half the women were just barely making ends meet. All the stalls or shops with just a few articles for sale were operated by female heads of household. It must be noted, however, that not all borrowers were interviewed in their homes.
5.3.2 Business Locations

Two-thirds of businesses were located in the home (66%). Market stalls were a distant second (14%). Mobile street vendors formed another category, along with street vendors who sold their products in a fixed location in the street (12%). The remaining businesses fell into a miscellaneous category, including purchased or rented business sites away from the home (9%). There were no gender differences in this category; rather, business location appeared to depend on income level and type of activity.

5.3.3 Reasons for Starting Businesses

One-third of the businesses were started in the last five years, one-third between five and ten years ago, and one-third more than ten years ago. The vast majority of the micro-businesses were started out of necessity (97%). Only one person said they started their business "because I like this type of work." Others businesses arose from scarce employment opportunities. People stated that they started their business because:

"I had to do something to earn a living" .... "I was unemployed" .... "I'm poor and need to work to live" .... "I needed to find an alternative way to work because of the problems in the economy."

Some women indicated that they started their business because they were laid off from work in the public sector following the change of government in 1990. Many single mothers started their business when their children's father stopped providing child support:
"The father of my children used to give me support money, but he stopped, so I had to find a way to maintain my children."

"I was living in the United States with my husband and then we separated. I arrived in Nicaragua without any money. I am trained as an accountant, but the available jobs do not pay enough to feed my children. So I started this store."

5.3.4 Business Features

The business was the sole source of household income for over half the people interviewed (54%). Since many businesses generated less than 300 cordoba a week (approx. US $34), a large number of micro-credit clients and their families live close to a subsistence level. The enterprise was the sole source of income in almost all female-headed households. Notably, these businesses appeared to be the least well-developed in most cases.

Long hours are a common feature of informal activities, partly because home-based businesses offer little division between work and personal life, and partly because of the necessity of staying open as much as possible. About 46% of people interviewed work more than twelve hours a day, while 37% work nine to twelve hours. Pulperias in particular require long hours because owners are afraid to lose clients if they do not stay open from dawn to late at night—many pulperia owners interviewed work up to sixteen hours a day, seven days a week.

The majority of businesses were micro-businesses with only one or two workers. Workers were generally family members living in the same household. Many businesses were run by married
couples with help from their children. Single mothers often worked with their mother or sisters, with help from their children. A few businesses could be considered small businesses, rather than micro-enterprises. They had five or more employees, and tended to employ more non-familial workers. One example was a candy manufacturer run by a husband and wife team who employed five people in addition to two family members.

5.3.5 Need For Credit

There were three reasons people decided to ask for a loan, indicating different levels of need:

Reason #1: to start or create a source of employment

"We were three unemployed women who wanted to create a source of employment to survive. We needed a loan to buy basic tools to make our crafts."

Reason #2: to sustain an existing source of income

"We were almost bankrupt and could not operate our [candy-making] business. We were barely working at all. The loan allowed us to buy materials to make our products and to develop a new product line."

"My customers had almost entirely stopped coming [to the comedor] because of the holes in the roof. They didn't want to get wet. I was selling only a few fruits and vegetables in the morning and had to do ironing in the afternoon to feed my children. With the loan I built a new roof and my customers came back."

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Reason #3: to improve or expand a business

"I got a loan to improve the variety of products, to have more to offer to my clients" ... "I asked for a loan to buy more merchandise to improve my business" ... "I needed a loan to lower the costs of products and enlarge my business."

The study revealed a significant need for credit. One-third of respondents said it would have been impossible to start or continue their business without credit. One-third said it would have been extremely difficult to continue without loans. The remaining third said their businesses would have survived, but would not have been as large or profitable.

In particular, the need for alternative credit options was evident. None of the interviewees felt they had sufficient collateral to obtain a loan from a bank. Just under half (43%) had received loans previously, but these were provided by informal money lenders (9%) or other micro-credit programs, including ones examined in this study (31%). It was also clear that most people felt extremely uncomfortable at the mention of banks, often calling them ‘blood-suckers’ or indicating a fear of having their house seized if they approached a bank for a loan.

5.3.6 Use of Credit

The majority of interviewees used their loans for working capital only (69%), while about one-third used their loans for both working capital and investment in equipment or building improvements (31%). Working capital was used in different ways. Some people used capital to maintain the same level of operation, while others used it to expand the variety or quantity of their products, as
in the preceding quotes. This difference indicates the use of alternative credit by both subsistence level and dynamic businesses.

No one used loans exclusively for fixed asset investment, even those people receiving their 20th or 30th loan. Comments from some interviewees indicated three reasons for this pattern. First, some micro-entrepreneurs operate so close to the margin that after household expenses, there rarely remains enough money to purchase new products and materials for the business. Credit allows these people to maintain a subsistence level business, but rarely allows for investments to improve or enlarge the business. Second, many people indicated that they would rather use business profits for investment rather than incurring the extra burden of more debt. Third, some people indicated they are unable to get loans sufficiently large for fixed asset investment, even from alternative lenders, due to a lack of collateral.

5.4 Experience with Credit Programs

5.4.1 Marketing

The borrower survey confirmed that the Banco Popular markets their credit services more aggressively than other programs. About 70% of Banco Popular interviewees had heard about the services from a staff person or ad. By contrast, less than 20% of clients in other programs had heard of the service from program staff. Rather, they were referred by family, friends and acquaintances.
5.4.2 Speed of Delivery

The Banco Popular issued credit much faster than other programs. Most clients received their first loan within one week of application, while the NGOs averaged two weeks to process initial loans. From discussions with program staff, these statistics likely hold true for most clients. There is a trade-off between speed and costs to the client, however. NGOs charge less for services than the Banco Popular, which requires more staff and branch offices to deliver loans so quickly.

5.4.3 Loan Amounts

Significant differences existed between programs in terms of satisfaction with loan sizes. Most FAMA clients stated they were unhappy with loan amounts (86%), while the majority of Banco Popular clients were happy (88%). The results would likely hold true with a larger sample size. FAMA and Banco Popular client samples were similar—both included mainly individual borrowers with commercial businesses. FAMA staff indicated that clients often receive lower amounts than those requested in order to mitigate risk to the program. By contrast, the Banco Popular dispersed higher loan amounts to new borrowers than did other programs. Many clients were receiving over US $1000 by their 2nd or 3rd loan, while other programs might issue eight loans before reaching that level.

There is a trade-off between borrower satisfaction and loan risk, however. While FAMA clients were less happy with loan amounts, they had less trouble making loan payments (only one had ever
had a problem). By contrast, half of the Banco Popular clients interviewed had difficulty making a payment at some point.

Clients from CEPRODEL, CHISPA and the Movimiento were evenly split between considering the loan sizes good (50%) and too small (50%). Many CHISPA clients appeared satisfied with the sizes because they were based on the amount that they and program staff had determined that they were able to pay. This indicates the importance of borrower participation in decision-making.

CHISPA solidarity group clients had one complaint: they disliked the fact that their loan size was determined by that of the group member least able to pay. They wanted to receive loans based on their personal need and cash flow.

Demographic differences appeared to affect loan size satisfaction. Men tended to be more unhappy with loan sizes than women. The higher the education level, the more likely individuals were to be unhappy with loan sizes. These differences may reflect actual differences in levels of satisfaction, or they may indicate that men, and people with more education, are more likely to express their dissatisfaction.

5.4.4 Repayment Terms

Clients generally felt repayment terms were fair. Solidarity group members in CEPRODEL were unhappy with the fixed weekly payments required by the program. One client said it was almost impossible for her to make weekly payments, since her clients pay her every two weeks. Banco
Popular clients appreciated the convenience of staff collecting payments directly from the place of business. For people working long hours, such services reduce the burden of credit.

Making payments created a heavy mental weight for many interviewees. Several people mentioned that making payments was constantly on their mind. As a result, many are working even longer hours since receiving credit. One person also mentioned the added burden of repaying loans in US dollars. As a single mother operating a pulpería for twelve to sixteen hours a day, this client went to a money changer daily to convert her day’s earnings in order to reduce the impact of daily currency devaluation.

5.4.5 Solidarity Groups

A major theme among solidarity groups was the lack of mutual support among members. In many cases the groups were regarded as an unwelcome necessity for obtaining credit. In FAMA, CEPRODEL and the Banco Popular in particular, clients viewed solidarity groups as a burden that made them responsible for other people's loans. CHISPA and Movimiento clients were generally more positive about the solidarity group model. Interviewees from these programs were willing to help one of their members make a payment if necessary. These group members said that they socialise with other members, send each other clients, and discuss business and personal problems.

Several features may account for the differences between programs. The clients interviewed from CHISPA live in a smaller community where people know each other well, whereas clients interviewed from other programs lived in Managua. Borrowers in Managua generally formed
groups with people who worked in the same market or neighbourhood, but were not necessarily friends. Although the Movimiento is also located in Managua, their group formation process was unique—solidarity group members had already established a bond as members of the organisation before becoming involved in the credit program.

The differences are not conclusive. The majority of comments from FAMA, CEPRODEL and Banco Popular clients were made by individual borrowers who had switched from solidarity group to individual loans. Comments on groups in CHISPA and the Movimiento came from active solidarity group members. Current group members may be more supportive of the model.

A significant gender difference affected all programs. Male respondents were more likely to find participation in a solidarity group displeasing than women. Only one of the men interviewed was satisfied with the solidarity group model. It was unclear if men would have been happier in same sex solidarity groups, but the comments of one man indicate this could be the case. This client’s main problem with solidarity groups was that the husbands of female group members were jealous of him, and had on occasion threatened him with violence.

Women were also far more likely to have group loans than men (52% of women vs. 20% of men interviewed). This could indicate that women tend to be more comfortable in solidarity groups than men. More likely it reflects the fact that women tend to have less collateral than men due to social barriers preventing access to economic resources.
Communal Banks seemed to be more effective than solidarity groups in creating a mutual support network and the potential for community development processes. In addition, men appeared to be more satisfied with this model than with the solidarity group model. Unfortunately, this conclusion is based on two interviews with clients from one program only—more interviews are necessary to determine whether this pattern holds true in both programs using the model.

5.4.6 Training

Training programs appeared to affect the likelihood of benefits from credit in a minority of cases. About 44% of those who had attended training had better control of their accounts than before the training. The majority of those who had attended training but had not changed their accounting practices had already learned financial management through formal education or another family member. CHISPA’s training program appeared to be the most effective in terms of helping clients to make concrete changes in the way they managed their businesses and their money.

Nonetheless, it is clear that many people are attending courses which do little for them as 56% did not change their money management practices. Many people said they did not think they needed training and they had attended sessions only because it was required (i.e., CHISPA and Movimiento clients), or to receive deductions in their interest rate (i.e., FAMA clients). Some people are paying for training which they do not find useful. One man spoke of a marketing course for which he paid US $6; approximately one or two day’s income. The course focused on marketing techniques and cost-cutting methods for store owners—he manufactured leather goods.
Some clients identified barriers to attending training sessions. Two women with comedors said that going to classes in air-conditioned offices after a day of cooking over a hot stove gave them colds. Other women mentioned that it was difficult to set aside time from their family and work responsibilities to attend training. The Banco Popular's training program was considered the most convenient, since staff train clients in their place of business.

5.5 Business Impacts

5.5.1 Income Generation

Credit had a remarkably positive impact on clients' incomes in most cases. A total of 86% of borrowers had benefited from an increase in income since receiving their first loan. The likelihood of increases was even from program to program and did not vary among people who had invested in fixed assets for their business, versus people who used loans for working capital only. The size of the increase in income depended on the number of loans received. The degree of the increase also varied significantly. When some people spoke of an increase, they meant that they were now making enough to feed their children every day, while others meant that they were now making enough to build a new section onto their store or to buy a car.

The majority of those who did not see an increase in income identified business competition, not loan size or terms, as the main reason for the lack of growth. One man who made sandals said he could not compete with inexpensive imports from Free Trade Zones. Two women with pulperias said that an increased number of similar businesses in their neighbourhoods had actually resulted in
less income since they received their first loan. One person, a tortilla maker, did mention loan size as a factor in her lack of increased profits. She said that the 500 cordoba loan she received (approx. US $59) paid only for a few bags of flour and the cost of transporting them home. She did not have enough money remaining to buy firewood to cook the tortillas. She said she had asked for more money on her second loan but again received the same amount.

5.5.2 Employment Creation

About 40% of the enterprises surveyed had hired full-time staff since receiving their first loan, while 23% had engaged additional part-time staff. Part-time jobs tended to be unpaid positions, and usually consisted of the children or spouse of the owner working on a casual basis. By contrast, full-time positions generally indicated that the business was earning enough to pay additional people, even when the new workers were family members or employees. Three times as many full time jobs were created in service and manufacturing enterprises than in the commercial sector. Almost all the casual, part-time work was created in commercial ventures. Such a dramatic difference warrants further investigation with a larger sample size.

In addition to creating new jobs, credit had clearly sustained existing employment. As mentioned above, two-thirds of interviewees said it would have been impossible or extremely difficult to continue their business without access to credit.
5.5.3 Other Business Changes

A total of 74% of respondents had modified their purchasing practices since receiving a loan. Some had switched from buying small quantities at higher prices to large quantities at lower prices. Many were able to buy a greater variety of products with loans. Others had always bought products wholesale, but had previously purchased them on credit at exorbitant interest rates. In all cases, the purchasing power meant an increase in income because businesses had more products to sell, and/or a higher profit margin.

There were three reasons why the remaining interviewees had not benefited from the purchasing potential of credit. People receiving their third loan or more were much more likely to have changed to bulk purchasing from retail purchasing (90% vs. 50%); thus people negotiating their first loans may change their practices later. People with service and commercial activities appeared to find it easier to change their practices than people with manufacturing businesses (over 80% vs. 55%). Finally, the higher the business income, the more likely the owner had changed their purchasing practices. In other words, businesses which operate at a subsistence level cannot easily change their purchasing practices.

People were not asked if they had more clients since receiving their first loan, but 26% mentioned that their clientele had increased in size. Interviewees were asked whether or not the geographical base of their market had expanded. About 66% of respondents said their clients were still from the same area, while 25% said their market had expanded. For example, people who had previously
sold products only in their own neighbourhood now sold to people from across the city. The remaining 9% said their client base had actually shrunk due to competition.

5.6 Personal and Household Impacts

5.6.1 Assets

Business and personal assets had increased since receiving loans in the majority of cases: two-thirds of those interviewed said they had more assets now than before their first loan (66%). These assets ranged, however, from small items like fridges and sewing machines to large items like cars or property. According to this study, women were just as likely as men to have sufficient assets to use as loan collateral. Women who were part of a couple, however, were far more likely to have increased assets after receiving loans than single mothers (86% vs. 33%). If the figures were true for a larger sample size, this finding would demonstrate that single mothers may be less able to benefit from the business expansion potential of credit than married women.

Despite positive examples, many people feel they are not ‘getting ahead’ even with the loans. Businesses which provide a subsistence level income but do not expand are particularly at risk; as equipment devalues and is not replaced by increased income, loan amounts decrease accordingly. The business becomes less and less competitive and assets may even be sold off to pay debts. Furthermore, most of the programs seize borrowers’ assets in the case of missed payments. Head offices often had entire rooms full of television sets, stoves, etc.
5.6.2 Savings

Almost half the people interviewed did not have any savings (46%). They were either too poor to set aside money after basic household expenses, or they purchased such things as gold or business equipment rather than putting savings into a financial institution. Among the 54% who did have savings, over three-quarters have increased their savings since receiving their first loan. Not surprisingly, the majority of people with increased savings are clients of the Banco Popular, which has a mandatory savings program for all clients. Over half of the CHISPA clients interviewed also reported increased savings, however, compared to only 15-25% from other programs. This may be related to CHISPA’s emphasis on the importance of savings during training sessions.

5.6.3 Home Improvements

Over half of the interviewees had made improvements to their house since receiving their first loan (54%), due to increases in income. People meant different things when they said they had made improvements. Some respondents lived in middle class neighbourhoods. They had cement block houses, usually painted, which were located on paved roads, and linked into a central sewage system. People living in such homes usually meant they had repaired their roof, re-painted, or bought new furniture.

Other respondents lived in quite poor neighbourhoods in which houses were generally made of scrap materials. Most houses had their own outhouse, but wastewater ran through the streets. Legal telephone and electric services were usually available. Respondents in these areas were
much less likely to have made improvements to their home, but improvements were much more significant when made. For example, one man and his wife had upgraded a one room wooden shack into a three room cement home since receiving their first loan.

Women were slightly more likely to have made improvements than men (60% of women vs. 40% of men) and women in couples were much more likely to have made improvements than single mothers (73% of women in couples vs. 27% of single mothers). These findings indicate that women are more likely to invest profits in the home than men, but that household structure may be a more important factor than gender in determining whether or not improvements are made.

5.6.4 Benefits to Children

Of the people with children, almost three-quarters said their children had benefited since receiving their first loan (74%). People living at a subsistence level were able to ensure their children had food to eat every day or money to attend school every week. People at a higher income level were able to buy more clothing for their children, or even send them to private school in some cases. The impacts were immediate—even people on their first loans said their children had already benefited.

Male borrowers were almost as likely as female borrowers to indicate that their children had benefited from the credit (78% of women vs. 63% of men). This appears to contradict the idea that lending to women has a more direct impact on children. But the statistic does not take into account
that more women than men are single parents with the sole responsibility for supporting their children. Therefore, lending to women is more likely to benefit a greater number of children.

5.6.5 Decision-Making Power

Interviewees were asked who made the financial decisions in their home, in order to determine if credit, or simply having an income source, affected women's decision-making power in the home. It appeared that neither factor had an impact. In fact, Nicaraguan women appear to be in sole charge of household finances in most cases, or to share the responsibility with their spouse. Male respondents stated that their wives made the financial decisions, or that they made them as a couple. Female respondents said they made the decisions themselves, or with their spouse. In cases where another generation was living in the home, younger women usually said that their mother made the decisions.

5.6.6 Personal Well-Being

One of the most significant impacts was made on people's sense of personal well-being. Over two-thirds of respondents indicated that they had felt more secure about the future since receiving their first loan (69%). The security came from knowing they could provide for themselves and their family, and knowing they could continue to rely on the credit program. This increased security about income helped people feel able to make more plans for the future. One woman said she was now planning to send her children to university to help them train for good careers. Two women
indicated that the loan had helped them to take their ventures seriously, and to start planning how to expand their businesses in the future.

The people whose sense of well-being had not increased indicated that it had little to do with credit. Many women with pulperias mentioned the incredible boredom associated with the work. They said they rarely leave the house because they cannot close the store, and would rather engage in another type of work outside the home. Other women identified family problems that affected their sense of well-being. The mother of one client had recently died and thus was no longer helping her support the family. Another woman felt less secure because her husband had been stealing from her business.

Men did not mention personal factors affecting their work. The difference may indicate that men are more inclined to separate work and family life, or it may have arisen because women felt more comfortable disclosing personal information to the female interviewer than men did. Several men indicated that the larger economic and political situation made them feel insecure about the future.

5.7 Summary of Findings

The borrower survey showed that the credit programs are well-designed to reach their target groups. Almost all of the interviewees operated businesses with five or fewer workers indicating that the programs are reaching their main target group: micro-entrepreneurs. Programs also seemed to be reaching their specific target groups. For example, two of the clients interviewed
from FAMA could be considered to be among the ‘poorest of the poor,’ while all the interviewees from the Movimiento were women with dependants.

The survey suggested that micro-enterprises act as a survival strategy for the majority of borrowers, having been started due to lack of other employment opportunities. The people operating the enterprises represented a wide range of educational and income levels, revealing different reasons for choosing self-employment. For example, some women started businesses when they were laid off from the public sector, while others had never had a formal job. The former had higher education levels than the latter, and better developed businesses.

The use of credit indicated that the programs are reaching both subsistence level and dynamic enterprises. Some borrowers were using credit to sustain a business, thereby maintaining an existing source of employment and income. Others were using credit to expand their business, both in terms of profitability and number of employees. Banco Popular clients were found mainly in the latter category, while those of the Movimiento were mainly in the former. CEPRODEL, FAMA and CHISPA clients were of both types.

Clients were generally satisfied with the credit programs, although some had switched from one program to another. The main complaints regarded insufficient loan amounts (especially for group members in FAMA and CHISPA), inflexible payment terms (group members in CEPRODEL and CHISPA in particular) and high interest rates (in every program except the Movimiento). The need to repay loans to the US dollar value was also a significant theme.
Training services did not appear to be effective for a majority of borrowers, but technical advice from field staff was considered very useful. Solidarity groups served mainly as a way to access credit, rather than as a mutual support strategy, in three of the five programs (FAMA, CEPRODEL and the Banco Popular). In two programs (CHISPA and the Movimiento), the social development potential of the group model seemed to be better developed. None of the credit programs had many impacts at the community level beyond some employment creation, but the newly introduced Communal Bank model (in CHISPA and CEPRODEL) seemed to have potential in this regard.

Access to credit had resulted in many positive social and economic benefits for borrowers. The majority had experienced increases in income since receiving loans. In many cases, increases in income had been translated into more assets and improvements to children’s education and nutrition. In some cases, income increases were sufficient to invest in home improvements or generate savings. One significant gender-related impact was that many women felt more confident about the future since receiving loans. This phenomenon was equally reflected in programs with business development and social development objectives.

Credit did not appear to have any effect on relationships within the household or on women’s decision-making power. People at the lowest end of the income scale appeared least likely to be able to change their purchasing practices to increase profits, or to build up assets. Single mothers were over-represented in this group, which could be considered among the poorest of the poor. It was also difficult to determine how significant income increases were, due to inconsistency in responses and lack of formal bookkeeping among many respondents. Observation indicated, however, that income increases were not sufficient to lift people out of poverty in many cases.
6. CHAPTER SIX: ANALYSIS OF FINDINGS

The thesis began by examining general features of micro-credit as a development strategy, exploring theoretical issues about its role and objectives, and looking at case studies from around the world. The discussion then turned to micro-credit in the Nicaraguan context, examining the need for such a development tool, the lending models being used, and the impacts of the programs. This chapter seeks to link the two areas, using theoretical literature to analyse the field research findings. The purpose of this exploration is two-fold:

• to examine the 'transferability' of micro-credit by comparing Nicaraguan models to those in other parts of the developing world

• to evaluate the effectiveness of the Nicaraguan micro-credit programs according to the evaluation criteria outlined in Chapter One

6.1 Appropriateness of the Strategy

One aspect of transferability is whether or not the tool is appropriate to the context. The study showed that micro-credit is definitely a needed strategy in Nicaragua. A convergence of factors has made self-employment a vital part of urban survival strategies, particularly for women and their families. With little government aid for this sector, strategies like micro-credit play an important support role.
The number of borrowers using existing micro-lending services, estimated at almost 20,000, is strong evidence of the need for this type of support. Women's need for credit is particularly apparent from the fact that they make up almost 80% of borrowers. Without alternative credit programs, many people would rely on informal lenders who charge interest rates of 30% or more per month. The research underlined the need for a variety of micro-credit programs to meet the needs of different people, since many clients had switched from one program to another that suited them better.

Mizan, in a book on the Grameen Bank, identifies several factors which contributed to the success of the Bank in Bangladesh including "wide-spread poverty and a socio-cultural environment conducive to change" (Mizan, 1993: 216-217). These conditions likewise exist in Nicaragua with its history of revolution and high levels of poverty. Such factors may have contributed to the 'replicability' of the model in this context.

This does not mean that Nicaraguan credit models are identical to their international counterparts; while the basic objectives and methods are the same, many features have been modified to suit the Nicaraguan political and social context. Some of these modifications are explored in the next section.
6.2 Comparing Nicaraguan Models to their Counterparts

6.2.1 Philosophy

The study indicates that Nicaraguan micro-credit programs are more inclined to have a neo-liberal approach to development than South Asian counterparts like the Grameen Bank and SEWA. Four of the five programs focus on entrepreneurial development—one exclusively (the Banco Popular), two combined with some poverty alleviation objectives (CEPRODEL and FAMA) and one combined with community development goals (CHISPA). Only one program has an ideology of social change (the Movimiento).

This feature can be explained by Nicaragua’s political context. The first four programs mentioned are closely associated with the forces behind Nicaragua’s transition from a socialist to a market economy, following the change of government in 1990. The founders of the fifth program have roots in the Sandinista revolutionary movement.

6.2.2 Participation Levels

Nicaraguan micro-credit programs do not allow for as much borrower participation as the Grameen Bank and SEWA. Borrowers at the Grameen and SEWA are members of the bank, and can participate in decision-making about loan applications and the direction of the institution. Since low-income women rarely participate in formal institutions, their mere presence in such an
organisation can signify change (Summit Declaration, 1996: 13). Input and participation from borrowers may also help to ensure that the program effectively meets their credit needs.

Such processes are not occurring in Nicaragua in most cases. Only one program (the Movimiento) allows borrowers to participate directly in program decision-making through their annual assembly. The other programs take client opinions into consideration, both in program planning and loan decisions, but do not allow for direct participation. The lack of borrower participation may be explained by the entrepreneurial development orientation, rather than social change focus, of these programs.

6.2.3 Gender Objectives

Case studies from other parts of the world revealed a gender and development focus (GAD) in many micro-credit programs. Such objectives were lacking in most of the Nicaraguan programs examined. Although women make up the majority of borrowers in all programs, only the Movimiento has gender-specific objectives. The Banco Popular and CHISPA seek to provide women with access to credit, but their goal is simply to include women in existing projects, corresponding to a WID approach. The Movimiento provides credit to improve women's economic opportunities, seeing this as a means to improving women's social and economic position in the household and larger society. In other words, their objectives take issues of power and women's strategic needs into consideration, corresponding to a GAD approach.
6.2.4 Peer Lending Models

Nicaraguan credit programs appear to have followed the lead of the Banco Sol in Bolivia with regard to group lending. Established in 1992, the Banco Sol adopted the Grameen’s group lending approach, but with modifications. Rather than approving each other’s loans, group members fill out loan forms and a credit committee made up of bank staff makes the final lending decision. One of the major modifications in the Banco Sol’s approach is that they do not require group meetings. It is expected that members see one another regularly at their place of work and do not need a formal meeting outside of this time. These features were readily apparent in Nicaraguan programs as well, and seemed to have negative implications for the potential mutual support role of solidarity groups as discussed in section 6.3.2 below.

6.2.5 Views on Training

The Nicaraguan credit programs surveyed recognise that their clients need more than credit to succeed. All five programs offer technical advice and business training in addition to credit services. In the case of entrepreneurial-oriented programs, these services were seen as a way to support business development. In programs with poverty alleviation or social development goals, enhancing business potential was seen as a way to improve standards of living. In all cases, training was also viewed as positive for the viability of the program itself because there is less likelihood of loan default if businesses function well.
6.2.6 Default Rates

Micro-credit programs have shown that low-income groups tend to have very high loan repayment rates. The Nicaraguan programs were no exception with an average repayment rate of 92%. Most programs did not keep separate statistics for female and male borrowers, but those which did found that women tended to have slightly higher repayment rates, like their international counterparts.

6.3 Evaluating Program Features

6.3.1 Financial Sustainability

Urban credit programs learned from the failures of rural credit projects in the 1970s. One lesson was the need to create financially sound institutions (Adams & Pischke, 1992: 1465-1466). Financial sustainability has two benefits. First, it may increase institutional autonomy vis-à-vis donor agencies. Second, it helps programs to increase their borrower base over time, simultaneously creating greater impacts and a larger income base. Both institutional autonomy and the capacity to reach a large borrower base were important evaluation criterion in this study.

Options for creating financial sustainability include:

- attracting investors (Kane, 1996: 14)
- mobilising savings from members and non-members (Rahman, 1993: 214)
- accessing a diversity of funding sources (Shriver interview, 1996)
Judging by these features, the Banco Popular is probably the most financially sound program surveyed, relying on thousands of client deposits for its loan capital, including clients of the micro-credit program and clients in general. FAMA is also well positioned, with several capital sources including bank loans and international donations. These two organisations are also in the best position to expand their borrower base because they have large capital pools (unlimited in the case of the Banco) and branches located across the country.

The Movimiento is probably weakest with regard to financial stability. Their funding sources are limited to two agencies which provided one-time grants. The small capital pool generated was loaned out almost immediately, leaving little capacity to expand their client base. Furthermore, current borrowers may be left without access to larger loans when their first loan is repaid. CHISPA is also poorly situated because they do not keep a financial reserve to mitigate the impacts of defaulted loans. Unlike the Grameen Bank, none of the programs examined in this study are working to attract investors at this time.

6.3.2 Implications of Lending Policies

Chapter Two outlined the fact that women’s businesses tend to be smaller than men’s and that credit methods must be specifically adapted to meet their needs for small loans and non-collateral based credit methods. The study indicated that all programs included in this survey are using solidarity groups and small loans effectively to ensure women have access to credit. This is true in both the programs directed solely at women, as well as those which loan to both men and women.
It was also apparent that credit policies were being used effectively to reach the poorest sections of the population, particularly single mothers, in the programs which specifically targeted these populations. FAMA and CHISPA's average loan size amongst solidarity groups indicates that they are reaching the poorest of the poor. CEPRODEL indicated that 70% of their clients are single mothers. The Movimiento lends only to the poorest of the poor, and 100% of their borrowers are women with dependants. The combination of the group methodology and small loan sizes are probably important features in making credit accessible to such people.

Many Nicaraguan borrowers appeared strongly resistant to the solidarity group model, however, a characteristic which was not identified in literature on programs in other parts of Latin America. Part of this resistance may be due to the historical emphasis on cooperatives by the Sandinista government. Having been compelled to join collectives throughout the 1980s may have made many Nicaraguans wary of imposed group-oriented strategies. The potential mutual support role of solidarity groups is therefore not highly developed in most of the programs examined in this study. Rather, there appears to be a lack of trust between group members. This dynamic may also be the result of program policies which do not require group meetings.

Since solidarity groups are not given decision-making power in the Nicaraguan programs, they are unlikely to develop the leadership capacity which can lead to community development initiatives. This lack was due, in part, to the fact that developing leadership capacity is not an objective of most of the Nicaraguan programs surveyed. Solidarity groups appear more unpopular with men than with women, although this may be due to the mixing of sexes in a single group. Since no mention
was made in the literature of men in solidarity groups, it is difficult to compare this finding to other programs.

Such findings indicate that other group models may be more effective than solidarity groups for promoting community development in the Nicaraguan context. The Communal Bank model, similar in structure to FINCA’s Village Banks in other parts of Central America, seems to be effectively developing leadership capacity for both women and men in at least one Nicaraguan credit program (CEPRODEL).

An interesting dynamic is that the solidarity group model appears to be ‘dying out’ in the credit program with the greatest focus on entrepreneurial development, namely the Banco Popular. Many groups have dropped down to two members in this program, and all members have switched to individual loans in other groups. This phenomenon indicates that the Banco has proportionately more clients with well developed businesses than other programs, a conclusion which is substantiated by the fact that the Banco Popular’s average loan size is relatively high compared to the other programs.

Such a finding may indicate that commercial banks are not the most effective institution to reach the poorest of the poor, a conclusion which has been upheld by other studies (Berger, 1989b: 1020). The Banco Popular’s role of sustaining or helping to expand better-developed businesses is an important one, but implies that the other types of institutions may be more effective at achieving poverty alleviation objectives.
There are problems with focusing exclusively on the poorest sections of the population. The Movimiento lends only to subsistence level businesses by offering a small loan range. This practice ensures they reach their target group, but it also means that borrowers do not have access to increasingly larger loans, limiting their ability to support people who lift themselves above the poverty line, or whose businesses have expansion potential. The Grameen Bank has been criticised for not offering larger loans to individuals once they have reached the top loan level in a group (Mizan, 1993: 214), indicating that this issue may be common to micro-credit programs with a social change philosophy.

The other programs (FAMA, CHISPA and CEPRODEL) have effectively addressed this issue by offering increasingly larger loans to both group members and individual borrowers. Group members can graduate to individual loans once they reach the top level, and individual loans are available in quite large amounts (up to US $3500 in some cases). This adaptation means that the credit needs of dynamic businesses are met, while poorer people (with fewer assets) can still access loans through the group methodology. The combination of group and individual lending, combined with a wide range of loan sizes, then, appears to be the most effective way to achieve both poverty alleviation and entrepreneurial development goals.

6.3.3 Implications of Cost Recovery Policies

Focusing exclusively on the poorest of the poor has implications for the financial viability of a program, since these populations are least able to pay sufficient interest rates and service charges to cover administrative costs. In fact, the Movimiento is the only credit program surveyed which
operates on a subsidy model. This feature may have implications for their ability to recover loans if borrowers begin to view their credit program as a charity. At the same time, the Movimiento is much better positioned to achieve social development goals than the other programs examined. This brings into question the whole notion of whether or not a poverty alleviation program should attempt to recover all their costs from their target groups.

With the exception of the Movimiento, all programs surveyed charge higher interest rates on loans than commercial banks, but lower rates than those charged by informal lenders. Such practices make credit worthwhile for most micro-entrepreneurs. The fact that most programs had additional service charges significantly increased debt loads, however. Furthermore, loan repayment is set to the original US dollar value in all programs. This policy is intended to keep capital pools constant, but rapid devaluation of the local currency means that borrowers may pay up to an additional 2% on their loans as a result. The borrower survey indicated that such charges place a heavy burden on some clients, particularly those receiving the smallest loans.

Finally, many Nicaraguan programs are charging higher rates for solidarity group members than individual borrowers because group loans are more costly to administer. Yet people who join solidarity groups tend to be the among the poorest of the poor—they join groups because they have no collateral. This policy thus places the highest burden for cost recovery on those clients with the fewest resources. It would appear from this discussion that there is room to re-evaluate the cost recovery strategies of Nicaraguan credit programs, particularly those with poverty alleviation goals.
A final issue in cost recovery relates to services other than credit. All the programs offer business training, and field staff maintain close relations with borrowers to provide technical advice and encourage repayment. These services create high administrative costs. In most programs, the costs are passed along to the borrowers in the form of service charges. In other programs, training is partially or wholly subsidised partner agencies. The borrower survey indicated room for both types of strategies, depending on the nature of the training and the target group.

6.3.4 Meeting Gender-Specific Development Needs

Case studies in Africa and Asia have showed that women may gain confidence and greater decision-making power within the family simply by virtue of having their own source of income (Bullock, 1994: 63). This dynamic does not seem to be as prevalent in the Nicaraguan context. All of the female interviewees seemed accustomed to the role of earning an income, and running a business did not appear to have affected their role within the household.

The difference may be due, in part, to the fact that Nicaraguan women have long had financial responsibility for their children, whether it be adding a supplementary income to the household, or providing the sole source of income. The participation of many Nicaraguan women in the Revolution may also be a factor. Sandinista principles emphasised women's right to work outside the home, and in non-traditional occupations, creating a partial shift in women's sense of their place in society.
What does appear to help women, though, is having someone recognise their income generating activities as a business, or simply placing trust in their capacity to repay a loan without providing collateral. This potential role of credit programs appeared evident in only one program (the Movimiento). Such findings may indicate that programs must set out with gender and development objectives to have impacts of this nature.

Three of the five programs lend to existing businesses only. Nicaraguan women tend to work in monotonous occupations that require long hours to earn a subsistence level income. Many women engage in economic activities which are an extension of their traditional domestic role. By lending to existing enterprises, credit programs provide a way to sustain an existing income source, thereby meeting women’s immediate need to maintain their family in times of economic hardship.

On the other hand, lending to existing enterprises does not meet women’s strategic need to progress from the kinds of work in which they experience social and economic subordination based on gender. CEPRODEL and the Movimiento both have programs which help women to access technical training in non-traditional occupations, indicating that NGOs which offer more than credit may be better positioned to address this issue.

6.3.5 Meeting Borrowers’ Identified Needs

A final issue in evaluating the Nicaraguan credit programs was the borrowers’ views of the programs. The study indicated that some credit programs surveyed are more effective than others in meeting the needs of their borrowers. For example, the literature shows that micro-
entrepreneurs need rapid access to credit since they tend to operate 'at the margin.' Conversations with Nicaraguan borrowers indicated that this need was also significant in that context. Another evident need was for flexible payment terms to accommodate the unpredictable cash flow associated with informal sector activities. Many people interviewed indicated a desire to have loan sizes match their personal capacity to pay, whether they borrow as an individual or as a member of a solidarity group.

Case studies indicated that application processes should take into consideration the fact that many micro-entrepreneurs are illiterate. This issue did not appear as relevant in Managua, given the relatively high education levels of borrowers. Lack of experience with financial institutions is an issue, as well as the formality of program offices and the approach of staff. Such dynamics can create barriers to benefiting from the full range of services offered by an organisation.

Through training and technical advice, all of the programs are providing clients with the opportunity to acquire business skills. Borrower interviews indicated that these services could be improved if clients were allowed to choose whether or not they need training, and if a wider variety of training were available. The responses from female borrowers pointed to the importance of considering women's domestic responsibilities in scheduling training. In some programs, borrowers indicated a desire for more consistent access to technical advice.

Table 13 provides examples of methods which are working well in the programs surveyed and those which are not working as well. The table does not include all aspects of each program that are functioning well, but is a starting place for examining effective models.
<table>
<thead>
<tr>
<th></th>
<th>Effective Features</th>
<th>Not-So-Effective Features</th>
</tr>
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<tbody>
<tr>
<td><strong>Banco Popular</strong></td>
<td>• field staff collect payments and do training at client’s place of business</td>
<td>• does not appear to be reaching the smallest micro-enterprises</td>
</tr>
<tr>
<td></td>
<td>• large base of funding sources makes program financially stable</td>
<td>• savings requirements may be too high for people with marginal incomes</td>
</tr>
<tr>
<td><strong>CEPRODEL</strong></td>
<td>• new credit method (Communal Banks) encourages community development and provides savings services for micro-entrepreneurs</td>
<td>• program structure is highly bureaucratic and therefore not able to change easily to meet the needs of borrowers or to respond quickly to borrower concerns</td>
</tr>
<tr>
<td></td>
<td>• offers longer loan terms for investment in fixed assets</td>
<td></td>
</tr>
<tr>
<td><strong>CHISPA</strong></td>
<td>• visit clients regularly to help assess how business has benefited from the loans and offer technical advice</td>
<td>• loan size for all group members based on person with least capacity to pay</td>
</tr>
<tr>
<td></td>
<td>• solidarity groups provide mutual support function for members</td>
<td>• loan decision process is time-consuming</td>
</tr>
<tr>
<td><strong>FAMA</strong></td>
<td>• flexible terms and sizes for both individual and group loans</td>
<td>• training policies do not necessarily target those who need training most—many people attend who do not need to, simply to obtain a reduction in interest rates, while those who need more business skills may not attend because not mandatory</td>
</tr>
<tr>
<td></td>
<td>• size of capital pool and number of offices gives capacity to provide credit on a national level</td>
<td></td>
</tr>
<tr>
<td><strong>Movimiento</strong></td>
<td>• lending policies ensure they reach the poorest of the poor, and enterprises that were barely subsisting without loans</td>
<td>• capital pool is spread across too many clients so lack the capacity to give larger amounts on subsequent loans</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• interest rates not sufficient to achieve cost recovery</td>
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7. CHAPTER SEVEN: CONCLUSIONS AND RECOMMENDATIONS

The thesis has revealed some of the unique features of micro-credit in the Nicaraguan context. It has also evaluated the impacts and effectiveness of these features. This exploration has provided clear evidence that micro-credit is a transferable strategy, but that the political environment and ideology of program founders will shape credit models and policies. The exploration has made it equally clear that micro-credit has resulted in many positive social and economic impacts in the Nicaraguan, but also indicates the limits of micro-credit as a development strategy. Limits exist both in terms of how services are currently offered, and in the potential of the tool itself. This chapter makes conclusions about the socio-economic development potential of micro-credit in the Nicaraguan context, then explores the planning implications of these conclusions.

7.1 Micro-Credit's Strengths and Limitations

7.1.1 Reducing Gender Inequities

Chapter Two discussed the fact that women face particular barriers to credit access from traditional lending institutions due to discrimination by bank officers and lack of economic resources. Therefore, simply providing women with access to credit helps to reduce gender inequities. Micro-credit programs are limited, however, in their ability to address power relations within the household or women's need to develop businesses with more income earning potential. These findings suggest scope for some programs to help women train for non-traditional occupations, or to help them develop businesses with greater expansion potential.
The study also indicated scope for improving the financial structures of NGO programs in order to increase women's access to credit. In January 1994, forty international leaders from NGOs, banks, government and development agencies met to discuss women and credit. The group, known as the United Nations Expert Group on Women and Finance, outlined several important strategies to increase women's access to credit. One important consensus they reached regarded the need for partnerships between NGOs and formal financial intermediaries, as well as between international agencies and local NGOs (Armacost, 1994: 10). Such models exist in Nicaragua, but there is potential for more partnerships between Nicaraguan credit-granting NGOs and commercial banks. Such partnerships would help increase the size of capital pools and enhance funding diversity.

7.1.2 Supporting Community Development Initiatives

The community development potential of micro-credit programs did not appear well-advanced in the Nicaraguan context. The study determined, however, that the recently developed Communal Bank (CB) model could have great potential in this regard. Not only can CBs help develop leadership capacity in low-income neighbourhoods, they could also provide economic resources for community initiatives through the savings of members. Furthermore, since members manage the banks themselves, CBs could achieve such results without imposing high administrative costs on credit programs. This latter feature creates the potential to balance cost recovery and social development objectives.
7.1.3 Achieving Poverty Alleviation

Some international development policy makers have hailed micro-credit as a means of completely eradicating poverty:

"The success of micro-credit as an anti-poverty tool communicates the possibility of moving toward a world that is freed from the blight of poverty within a length of time measured in years, rather than decades or centuries" (Micro-Credit Declaration, 1996: 7).

Research in Nicaragua indicates that this statement is overly optimistic. Credit does seem to provide the majority of borrowers with a way to survive during times of economic difficulty. It also provides a 'leg up' for a small minority of people, allowing them to develop viable and growing businesses. Nonetheless, the study showed that micro-credit alone cannot solve the problems of urban poverty in Nicaragua.

In fact, the study showed that people with the fewest economic resources were least likely to be able to expand their businesses as a result of credit. Female-heads of household were particularly vulnerable: while women were just as likely as men to expand a business, married women were far more likely to do so than female heads of household. Such findings may indicate that credit can provide poor individuals with the means to maintain a basic income, but not necessarily an escape from poverty.

The study showed that some institutional approaches may be more appropriate for reaching the poorest sections of the population than others—NGOs seemed more effective than commercial
banks in this regard. Further, the study indicated that targeting the poorest of the poor may be incompatible with achieving full cost recovery for a program. In this study, women living in shacks with dirt floors, selling tortillas for pennies a day, were paying the administrative costs of credit programs which included staff jeeps and air-conditioned offices. Such findings indicate that, at the very least, administrative costs could be reduced in order to reduce service charges to borrowers. Cross-subsidisation between different levels of borrowers might be another strategy worth considering.

7.1.4 Supporting Economic Growth

Neo-liberal economists view micro-enterprises as a source of untapped entrepreneurial potential, hindered only by lack of access to credit. The study indicated that this is true for dynamic micro-businesses (those 'most likely to succeed'), but not for businesses operating at a subsistence level. In other words, access to credit was helping some businesses grow from micro-enterprises into strong, viable businesses which participate in the marketplace on equal footing. In most cases, however, credit was providing support for people to continue generating a basic income without ever generating enough capital to develop a commercially viable venture.

Helping people sustain employment is an important role in a country like Nicaragua which has inadequate employment opportunities and almost no social safety net. Nonetheless, it does indicate limits to credit as an economic development strategy. There are four main issues hindering the growth potential of the micro-enterprise sector which cannot be addressed by credit alone.
First, credit does not address issues of market saturation. A feature of informality is that people tend to congregate in a few types of activities, resulting in market saturation. This process is a particular risk for women who tend to engage in petty trading and food services, as evidenced by the high numbers of pulperias and comedors among the women interviewed for this study. Lending to existing businesses encourages this process, resulting in marginal profits and little opportunity for business expansion. Training to support business diversification could help address this problem for at least some portion of the self-employed population.

Second, credit does not address lack of markets for micro-industrialists. Micro-manufacturers stressed their inability to compete with products from Asian and Latin American Free Trade Zones. Such findings indicate that choice of products is very important for micro-manufacturers. Nicaraguans may not be able to make shoes at a competitive price, for example, but they can make crafts for tourists. Since the craft market is very competitive, quality control is an important factor in business success, and a feature lacking in many small-scale ventures. As well, many micro-manufacturers lack the networks to access markets effectively, suggesting room for strategies like trade shows and links to international markets.

Third, credit does not address the fact that many people engaging in micro-enterprise activities are not entrepreneurs in the true sense of the word. Rather, they engage in such activities due to a lack of other opportunities and may lack the desire or skills to develop their enterprises. Programs with an exclusively entrepreneurial development focus may not recognise that many people would prefer to have jobs. Credit is therefore no substitute for national economic development policies which could provide increased employment opportunities.
Fourth, the study revealed that the larger economic context can have a crucial bearing on micro-entrepreneurs' ability to expand the profitability of their ventures. For example, many micro-entrepreneurs sell to people living at a similar economic level. While costs for products and materials increase monthly or even daily, interviewees found their customers would not pay more; profit margins shrunk accordingly. The national government can therefore play a crucial role in developing an economy which provides better business opportunities.

7.2 Implications for Planners

7.2.1 Credit Program Level

Before making recommendations to improve the socio-economic development potential of the credit programs, a distinction should be made between the development role of different types of programs examined in this study:

- Programs with an exclusively entrepreneurial development approach (like the Banco Popular) can provide credit for micro-enterprises with the potential to grow out of the need for loans, but appear inappropriate to reach the poorest of the poor or to achieve poverty alleviation goals.

- Programs with combined entrepreneurial development and poverty alleviation goals (like CHISPA, CEPRODEL, FAMA) can provide access to credit for both subsistence level and
dynamic businesses, helping to sustain employment and generate business growth. These programs also have the potential to support community development initiatives through the use of lending tools like Communal Banks. The cost recovery policies of these programs appear to unevenly burden the poorest borrowers, however.

- Programs with social change objectives (like the Movimiento) may be most effective in providing credit access to female-headed households and other marginalized groups. They may also be most effective at generating new sources of employment by providing credit for business 'start-up.' A limitation to such programs is that they may face a potential trade-off in financial self-sufficiency if they target only the most marginalized sections of the population.

The study suggested several areas that programs could consider addressing to improve their services and to enhance their socio-economic development potential. The degree to which programs would choose to implement such recommendations depends on their current policies and the direction they wish their program to take.

1. **Ways to improve economic viability:** Micro-credit programs which are operated by NGOs might consider becoming Poverty Banks, i.e., alternative financial institutions. This change would allow them to provide more financial services to clients, increase assets through client savings, and reduce dependence on outside funding sources. Programs which focus exclusively on subsistence level businesses could consider expanding their target group to include better-developed businesses.
2. **The benefits of flexibility in credit delivery:** A flexible approach to loan amounts and payment terms may better support clients’ efforts and help keep loan default rates low. Programs could consider making loan amounts and payment terms flexible for both individual and solidarity group clients, using general guidelines, but basing final decisions on the individual’s capacity to pay.

3. **Techniques to increase the community development potential of credit programs:** Credit programs can provide more than financial assistance—they can also help clients work together to address business, family and community problems. The Communal Bank model used by CHISPA and CEPRODEL appears to be a good step in this direction. Other credit programs might consider adopting this model as well.

4. **Strategies to balance cost-recovery with the need to provide relatively low-cost loans:** As some borrowers appear to be burdened by interest rates and service charges, programs could endeavour to reduce administrative costs. One way of doing this is to allow solidarity group members to make loan decisions, rather than leaving this in the hands of program staff. Another consideration is the possibility of cross-subsidisation between different levels of borrowers.

5. **Issues of formality in credit offices and branches:** In some cases, the appearance of offices may create barriers to credit or training access. For example, air-conditioning may be uncomfortable for many people, particularly women who operate food stalls.
6. **Training methods which encourage greater business diversity**: Lending to existing ventures may help them survive, but it does not address problems of market saturation. Helping some clients to develop new kinds of businesses with more expansion potential could result in more income for them, as well as for those clients who remain in the original market with reduced competition. Training may be most effective for those who have determined they want to expand/change their businesses. Such training could be offered on a cost recovery basis, with a sliding scale, or partly subsidised by government or international development agencies.

7. **Ways to improve marketing opportunities for micro-manufacturers**: Clients with micro-manufacturing businesses indicated that they need different types of training than do clients with shops and stalls, training which focuses on marketing and quality control. Such clients may also need on-going support in order to link into larger markets. Micro-credit programs could choose to develop these services themselves, or to work with other organisations to ensure their clients have access to such services.

8. **The issue of women’s strategic needs**: Many women could benefit from the opportunity to train for new professions which would allow them to obtain work outside the home, or to develop businesses in non-traditional sectors. The Movimiento and CEPRODEL have made a good start in this direction by participating in a technical training program for women, offered through the National Institute of Technology. Other programs could follow their lead or work together to develop additional strategies. Such training could be funded by government or international development agencies.
9. The potential for partnerships with other micro-credit organisations: Partnerships can be a strategic way to pool knowledge and limited resources. Through partnerships, organisations could work together to ensure that all market niches have access to credit and that borrowers receive a full range of support services. Partnerships would also be a good way for organisations to work together to address some of the larger economic and legislative issues which affect the self-employed.

7.2.2 Government Level

The study showed how the regulatory and policy framework can impact the potential of the micro-enterprise sector. Export-oriented trade policies which promote Free Trade Zones to international investors can hinder the potential for the development of local, micro-manufacturing employment opportunities. The fact that the State electrical company requires micro-businesses to pay business electric rates, even though the enterprises are too small to afford this rate, hampers business development.

The legal framework can create particular barriers to poverty alleviation strategies. The recent prohibition of vending at streetlights has reduced income generating opportunities for many urban families. Banking laws which require that lending agencies recover loans to their original US dollar value, coupled with devaluation policies, increase borrowers’ debt burden.

Government legislation can also affect the ability of NGOs to offer effective programs. Chapter Two outlined the importance of alternative savings services for both low-income groups and the
organisations who serve them. Yet Nicaraguan NGOs are currently prohibited from procuring savings. The government is also working to limit the autonomy of women's organisations through The Act on Women's Groups. This Act would require all international funding for women's organisations to pass through the government for approval. This law could severely constrain the activities of at least one organisation examined in this study (the Movimiento).

In addition to removing barriers, the study reveals possibilities for the Nicaraguan government to play an active role in supporting micro-entrepreneurs through national economic development policies and partnerships with organisations that serve micro-entrepreneurs. Craftspeople cannot sell souvenirs without an adequate tourist trade. These are areas where only a national government can step in. There is also a role for national government in increasing employment opportunities outside the micro-enterprise sector for those people who would prefer other options. Training women for new professions does not help if jobs are not available.

Practically speaking, the current national administration does not appear likely to address policy and legislative issues facing micro-entrepreneurs. Nonetheless, the following are suggested as ideal measures which the government could enact in order to enhance the income-generating and growth potential of micro-enterprises:

1. Acknowledge the importance of micro-enterprises as a positive source of employment and a potential arena for national economic growth. One argument to encourage the current administration to take this step is the fact that micro-entrepreneurial development represents a way to help in the transition from a socialist to a market economy.
2. **Change policies which hinder micro-enterprise profitability:** One example is the way in which the State electrical company charges micro-enterprises the same rate as small or medium enterprises. Another example is currency devaluation policies which increase debt burdens on small borrowers, and decreases their business profits.

3. **Deregulate the non-profit sector to allow NGOs to take savings:** Such a policy would increase the economic viability of credit-granting NGOs and increase financial services to low-income groups.

4. **Facilitate the development of micro-manufacturing:** There are several possibilities for enhancing the potential of this sector. The government could become involved in establishing networks/ cooperatives for micro-manufacturers (for craftspeople in particular), and in organising national trade shows. Changing trade policies to enhance the viability of local micro-manufacturing would also be helpful.

5. **Work in partnership with NGOs to enhance micro-enterprise development programs:** The government and NGOs could work together to create real alternatives for vendors at streetlights, for example. The government could also continue to fund business skills training programs through PAMIC, but extend such funding to a wider variety of agencies. At the same time, it is hoped that the government will continue to respect NGO autonomy in establishing their own objectives and programs.
7.2.3 International Level

This study indicates areas of caution for international development agencies involved in micro-credit planning, as well as ways to enhance the potential of this development strategy.

1. Micro-credit programs do not appear sufficient to achieve complex development strategies on their own: Micro-credit are effective development strategies, but are not substitutes for other kinds of social programs or national economic development policies.

2. An emphasis on cost-recovery is important to ensure the on-going economic viability of programs, but may, in some cases, be achieved at the expense of poverty alleviation goals. In other words, interest rates and service charges may be too high for people at the lowest end of the income scale. International development agencies may wish to reconsider the merits of promoting full cost recovery for programs with poverty alleviation objectives. Instead, they could encourage credit-granting NGOs to implement cross-subsidisation between clients, or to develop less expensive administrative models.

3. To facilitate the economic viability of Nicaraguan credit-granting NGOs, international agencies could established loan guarantee funds. Such funds form the basis for partnerships between commercial banks (which provide the loan capital) and credit-granting NGOs (which distribute and collect the loan capital).
7.3 Avenues for Further Research

As with most research projects, this study created as many questions as it answered. Since the study was fairly broad in nature, there was little time to look at particular issues on an in-depth basis. For example, many borrowers do not keep formal business accounts, so it was difficult to collect structured information about income increases. No distinction was made between increases in personal or business assets in evaluating credit impacts. These areas could be the subject of a study in which the researcher worked with borrowers to develop reliable calculations of such changes.

The study used a relatively quantitative approach to measure credit impacts. A qualitative methodology could reveal more information about the social and gender-related impacts of credit, such as impacts on power dynamics within households. An important feature of such a study would be an analysis of the factors other than credit which contribute to changes in these dynamics. The merits of business management training and issues of access to training for women are important avenues for deeper investigation. The potential role of Communal Banks in community development processes would be another relevant topic for a qualitative study.

The study was limited to Managua and one urban centre outside the capital. This provided little scope for comparing credit needs and impacts between the capital and other urban areas. It also did not address credit needs and impacts in rural or semi-rural areas. The fact that many of the credit programs are expanding their services into rural areas indicates the potential for a study on development priorities. Such a study might examine the merits of a development strategy which
supports the growth of the urban economy in a country which has its economic base in rural activities.

Finally, there is a great deal of scope to study issues of governance in regard to the micro-enterprise sector. This thesis did not address issues of physical planning such as the need for basic services in order to operate a successful business. Nor was there an examination of the impacts of municipal regulations on the micro-enterprise sector. Such topics are significant for planners and policy makers interested in self-employment development.

7.4 Concluding Remarks

Despite its limitations, micro-credit is both an appropriate and an effective development strategy in the Nicaraguan context. Micro-credit provides an effective means of sustaining an income source for many families, particularly female-headed households, who might otherwise 'fall through the gaps' in the country's transition from a socialist to a market economy. In some cases, micro-credit supports national economic growth by helping expand the profitability and size of micro-enterprises. With little government support for these types of employment strategies, private sector and non-profit involvement are necessary and important.


APPENDIX 1: LIST OF INTERVIEWS

Directora Abaley Ordoñaz
AMNLAE
Repto. San Juan C. Virginia, No. 582
Managua, Nicaragua

Sr. Mauricio Manzanarez
ANDAME
Repto El Carmen, Casa del Obrero
1 c. al Oeste, 1/2 c. al Sur, No. 707
Managua, Nicaragua

* Sr. Francisco Pena
MI PROGRAMA
Banco Popular
Centro Comercial Nejapa
Managua, Nicaragua

Jefferson Shriver
CEPAD
Puente Leon, 1 1/2 arriba
Managua, Nicaragua

* Sr. Miguel González
CEPRODEL
Simon Bolívar, 1 c. abajo, 1 c. al lago
Managua, Nicaragua

* Lic. Joaida Castillo Barquero
CHISPA
Hospital Hilario Sánchez, 1 c. arriba
Masaya, Nicaragua
* Sr. Víctor Telleria  
FAMA  
De Montoya, 3 1/2 c. abajo  
Managua, Nicaragua

Sr. Sylvio Terám  
FUNDE  
14 Km. Carretera Sur, 300 varas al Este  
Managua, Nicaragua

* Lic. Patricia Guiterrez  
Movimiento de Mujeres Traabajadoras y Desempleadas  
Asamblea Nacional, 1 1/2 abajo  
Managua, Nicaragua

Sra. María Hurtado  
PAMIC  
Managua, Nicaragua

* indicates programs chosen for in-depth study, which included interviews with other staff, and interviews with a sample of clients
APPENDIX 2: PROGRAM ADMINISTRATOR QUESTIONS

A. Program Objectives

1. When was the micro-credit program started (month and year)? (If different, when was the organisation started?)

2. Who started the program, how and why?

3. What are your objectives (with respect to the borrowers and with respect to the organisation)?

4. Who are the targets for the loans? (Clarify: women and men, mobile street vendors, business start-ups, urban and rural, geographic region, etc.)

5. Do you have any gender-specific policies (any policies to meet the specific needs of women)?

B. Structure of Loan Fund

6. What is the total size of your capital pool?

7. What is the total value of your current loans outstanding?

8. What are the sources of funding for your micro-credit program? (Ask: does this include costs of administration, or sources of funding for the loans only?)

9. Do you operate on a cost-recovery basis, or do you subsidise your administration costs?
C. Structure of Operations

10. What is your organisational structure (responsibilities, how many people there are, who answers to who, etc.)?

11. Do people borrow as individuals or in groups? (If borrow in groups, ask: how are the groups formed?)

12. What process do you use to assess a loan applications? (Clarify: what are the criteria? what guarantees do you require?)

13. What is the minimum and maximum loan size available for each credit methodology?

14. What is the average loan size for each credit methodology?

15. What are the loan payment terms and how are they determined?

16. What is the interest rate and service charges on the loans?

17. How do borrowers make payments on their loans (e.g., do the loan officers go out to loan recipients to collect, or do they come in to make the payment)?

18. What do you do if someone misses a payment?

19. Do you offer other services to borrowers in addition to loans (If so, ask what services, if borrowers pay for the services, etc. Clarify whether or not have a savings program)
D. Borrower Information

20. How do potential recipients hear about the program?

21. How many borrowers do you currently have?

22. If applicable: What percentage of borrowers are women?

23. What are types of businesses that receive loans from you?

24. If applicable: Do women have different types, or different sizes of business than men?

25. What percentage of applications are funded?

26. What percentage of loans are repaid?

27. If applicable: Is there any difference in loan repayment rates between women and men?

E. General Discussion Questions

28. How do you determine if you've been successful in meeting your objectives and reaching your target group?

29. Are there any laws regulating your operations or laws which affect you?

30. With which organisations or governmental institutions are you affiliated? (If connected to any international NGOs, clarify what kind of support they receive from them—financial support, technical etc.)
APPENDIX 3: BORROWER QUESTIONS

A. Experience with Credit Program

A1. How did you hear about name of program?

word-of-mouth credit agent radio/newspaper ad
other (specify) not sure/dk refused

A2. Why did you decide to ask them for a loan?

A3. When did you receive your first loan?

date not sure refused

A4. How long did it take to receive the loan after you applied?

under one week 1-2 weeks 2-4 weeks
more than 4 weeks not sure refused

A5. How many loans have you received in total?

(number) not sure refused

A6. What did you use the loans for?

working capital fixed asset investment
other (specify) not sure refused

A7. Will you ask for another loan in the future?

yes no not sure refused

A8. Have you ever received a loan prior to this for your business?

yes no not sure refused

a. If so, from who?

A9. What do you think of the loan sizes offered by name of program?
A10. Have you ever had trouble making a payment?

yes no not sure refused

A11. Have you gone to any of the training courses offered by name of program? (if so, ask A11a, b, c)

yes no not sure refused

a. What type of training did you receive?

b. How helpful was this training (to yourself personally and to your business)?

c. Were the times and days of the courses convenient for you?

A12. What would change about name of program if you could?

A13. Are you currently part of a solidarity group? (If so, ask them supplementary questions)

yes no not sure refused

B. Characteristics of Business and Loan Impacts

B14. Circle type of business:

service make something to sell sell retail
sell wholesale other ______________________

B15. When did you start the business (month and year)?

____ (years ago) not sure refused

B16. Why did you start the business?
B17. Do you have the same business now as when you first contacted name of program?

yes  no  not sure  refused

B18. How easy or difficult would it have been to start or continue your business without loans from name of program?

B19. Where is the business located?

home  rented space  street (fixed)
street (mobile)  other  not sure  refused

B20. a. How many hours do you work per day? How many days per week?

Hours: (total)  Days: (total)
not sure  refused

b. Now think back to the time before receiving your first loan from name of program. How many hours a day did you work per day then? How many days per week?

Hours: (total)  Days: (total)
not sure  refused

B21. a. How many people work in the business, including yourself?

1  2-3  4-6  7+  not sure  refused

b. If more than one, who are the other people?

business partner(s)  spouse  children
other family member (specify who)  not sure  refused
hired help (how many)  refused

c. How many of these work full-time (more than 40 hours a week, and how many work part-time (less than 40 hours a week)?

1  2-3  4-6  7+  not sure  refused

d. Prior to your first loan from name of program, how many people worked in the business then, including yourself?

1  2-3  4-6  7+  not sure  refused
e. If more than one, who were the other people?

- business partner(s)
- other family member (specify who)
- hired help (how many)

f. How many of these worked full-time (more than 40 hours a week, and how many worked part-time (less than 40 hours a week)?

- 1
- 2-3
- 4-6
- 7+
- not sure
- refused

B22. a. Do you buy your materials/products retail or wholesale?

- retail
- wholesale
- both
- not sure
- refused

b. Prior to your first loan from name of program, did you buy your materials/products retail or wholesale?

- retail
- wholesale
- both
- not sure
- refused

B23. a. How often do you buy materials/products?

- every day
- weekly
- bi-monthly
- monthly or less
- not sure
- refused

b. Prior to your first loan from name of program, how often did you buy materials/products?

- every day
- weekly
- bi-monthly
- monthly or less
- not sure
- refused

B24. a. Where would you say most of your customers come from?

- your neighbourhood
- surrounding neighbourhoods
- whole country
- international market
- all over city
- region
- not sure
- refused

b. Prior to your first loan from name of program, where would you say most of your customers came from?

- your neighbourhood
- surrounding neighbourhoods
- whole country
- international market
- all over city
- region
- not sure
- refused

B25. How do you keep track of your accounts (expenses, incomes, etc.)?

a. Prior to your first loan from name of program, how did you keep track of your accounts?
C. Personal Impacts

C26. a. Currently, what sources of income support you and your family? (Estimate percentage)

your enterprise your other job spouse’s job/enterprise
other family members not sure refused

b. Prior to your first loan from name of program, what sources of income supported you and your family? (Estimate percentage)

your enterprise your other job spouse’s job/enterprise
other family members not sure refused

C27. a. Who makes the decisions about how money is spent in your household?

you your spouse both other (specify)

b. Has this changed since you began your business?

yes no not sure refused

C28. a. How much income do you earn in a week from the enterprise?

b. Prior to your first loan from name of program, how much income did you earn in a week?

c. If income has increased, what do you spend the extra money on?

C29. a. Do you have any savings?

yes no not sure refused

b. If so, have your savings increased since you first received loans from name of program?

yes no not sure refused

C30. a. Do you own any assets which could be used as collateral for a loan?

yes (specify) no not sure refused

b. Prior to your first loan from name of program, did you own any assets which could be used as collateral for a loan?

yes (specify) no not sure refused
C31. Have you made any improvements to your house since you received your first loan?
   yes          no          not sure          refused
C32. Has there been any benefits to your children since you received your first loan?
   yes          no          not sure          refused
C33. Would you say your involvement in the community has changed since your first loan?
   yes          no          not sure          refused
C34. Please tell me how you feel now, compared with before you received your first loan—do you feel more confident, less confident or the same amount of confidence with regard to:
   • making decisions about your future (and that of your family)
   • interacting with your spouse
   • interacting with other family members
   • applying for a bank loan

D. Demographics
D35. Circle sex:
   male          female
D36. Where were you born?
   place          not sure          refused
   a. If not in the same city, when did you move to Managua/Masaya (year)?
   year          not sure          refused
D37. What is your age?
   16-19          20-29          30-39
   40-49          50 +          not sure          refused
D38. What is your marital status?
   single          married/common-law          separated/divorced
   widowed          not sure          refused
D39. What is the highest level of education you completed?

- primary or less
- some secondary
- secondary degree
- some university/degree
- university degree
- not sure
- trade or technical
- refused

D40. a. How many people live in your household?

_______ (number)  
not sure
refused

b. How many of these are children under the age of 16?

_______ (number)
not sure
refused

c. Of the adults, how many are men and how many are women?

Men ______
Women ______
not sure
refused
Supplementary Questions for Members of Solidarity Groups

1. How many people are in the group currently?

2. How was the group formed?

3. How often does the group meet?

4. Has another group member ever referred a customer to you or have you ever referred a customer to another group member?

5. Have you ever cooperated with another group member on some kind of business activity, such as buying materials together or something else?

6. a. How much contact do you have now with group members outside of meetings?

   b. Is this business-related, community-related or social?

7. Have you ever had to take action to encourage a member of your group to make a loan payment?

8. Do you have an emergency fund in case someone can’t make a payment?

9. In the last year, would you say your group has:

   gotten stronger     stayed the same     gotten weaker     not sure     refused