

Nicaraguan Developments

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Celebrating the Growth of the Microcredit Movement

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Women at a pottery cooperative that study tour participants met with during the 1994 microcredit study tour.

By Sue Lloyd
WCCN Board Member

It was 15 years ago that WCCN began to channel investors' money into community economic development in Nicaragua through what is now Prestanic, the community loan fund started by the Nicaraguan Council of Churches (CEPAD). Just a year earlier, after the 1990 election ended the revolutionary Sandinista government, WCCN's director, Sonia Taddy, and the Board had agreed that our focus going forward would be economic issues and projects. The opportunity to partner with CEPAD, a strong Nicaraguan NGO which shared a focus on economic development, came our way. WCCN took the initial steps on the road by which we eventually forged a model for investment in microcredit and community economic development in the third world.

As readers of *Nicaraguan Developments*, you know that the NICA Fund's total capital now exceeds \$7 million and that we have loaned our 14 partners (including Prestanic) over \$27 million in these 15 years. We've loaned these funds in a financially responsible and successful way. In addition, from the start investors came to us with a social concern for development in Nicaragua and a willingness to take lower than market return. Many had connections to CEPAD.

In the early 1990s, few in the investment world were looking at social impact as a desired "return" on investment.

There were also very few socially responsible community investment vehicles or opportunities. In contrast, the NICA Fund's due diligence process of

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Nicaraguan Developments is published by the Wisconsin Coordinating Council on Nicaragua (WCCN). WCCN is a nationwide, non-profit, membership-supported organization working in partnership with Nicaraguans to promote social and economic justice through alternative models of development and activism, principally through two main areas: Sustainable Development and Social and Gender Justice.

WCCN was founded in 1984, building on the sister state relationship established between Wisconsin and Nicaragua in 1964.

This edition of *Nicaraguan Developments* was edited by
Alisha Steele.

We welcome our readers' input. Please send comments or other correspondence to WCCN at:

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A letter from WCCN's Executive Director

With this special edition of *Nicaraguan Developments*, WCCN would like to commemorate its 15th anniversary working on the issue of microfinance. This celebration coincides with several important achievements of the NICA Fund this year and the very important international recognition of the worldwide microfinance movement. On December 10th, the Norwegian Nobel Committee awarded the Nobel Peace Prize to Muhammad Yunus, the pioneer of microfinance, and the Grameen Bank, the bank for the poor that Dr. Yunus created.

According to the Nobel Committee, "Lasting peace cannot be achieved unless large population groups find ways to break out of poverty. Microcredit is one such means. Development from below also serves to advance democracy and human rights". Through the NICA Fund and its other projects, WCCN has been working toward a similar goal, implementing a development model from below, using microfinance, housing and the promotion of women's rights with the aim of achieving peace, democracy and human rights in Nicaragua. Our involvement in microfinance changed WCCN's work forever in a way we never anticipated. However, our own outcomes have been extremely positive. Without the NICA Fund, our organization would have never been able to impact the number of Nicaraguan families we are currently reaching.

Our commemoration has also coincided with Nicaragua's presidential elections. As you might know, Daniel Ortega unexpectedly obtained enough votes to be elected president in the first-round. The election outcome was surprising considering that most of the polls showed him shy of a first-round victory. If the polls were correct, a second-round victory by Ortega would have been highly unlikely. From these pages I have been very critical of Ortega's role as the head of the Sandinista party. However, I must confess that I have conflicting feelings about his victory. On one hand, the authoritarian way in which Ortega has led the Sandinista party during the last sixteen years makes me very pessimistic about a government that he would lead. On the other hand, I cannot ignore the fact that Ortega's victory has created a lot of hope among the poorest Nicaraguans. That hope has extended beyond Nicaragua's borders, especially given the increasing number of countries in Latin America that have elected progressive presidents. As many Nicaraguans have said, we should give Ortega the benefit of the doubt, and see if he is the new man he says he is.

In this commemorative issue, we have three articles on microfinance. Our featured article was written by Sue Lloyd, one of WCCN's most dedicated supporters. Sue's article focuses on our 15-year history of working in microfinance. I am very pleased that Sue accepted our invitation to write an article for this special edition as she has been behind the scenes of WCCN almost since the beginning. She has also had a major role in the inception and success of the NICA Fund over the years. I would like to express our immense gratitude for her lifetime dedication and support to the political and day to day struggles of people in Central America. I would also like to thank Emily Allred, NICA Fund Manager; Shannon Bell, WCCN intern and UW graduate; Susan Frisbie, Development and Marketing Director; and Matt Early, co-founder of Just Coffee, for contributing to this issue of *Nicaraguan Developments*.

I hope you enjoy our special edition and join us in celebrating our 15 years of contributing to the improvement in the quality of life for thousands of Nicaraguan families through microfinance, which has been made possible by your support.

In Solidarity,



Carlos Arenas
WCCN Executive Director

The Commercialization of Microfinance

By Shannon Bell
WCCN Intern

As the microfinance sector has blossomed over the past thirty years to become an invaluable tool for the poor, a new phenomenon in the industry has emerged—the commercialization of microfinance. The 1990s witnessed the start of corrosion in the stone wall that has divided the microfinance and formal financial sectors, as many nongovernmental organizations began “up-scaling” and many banks went “down-market.” Although the transformation that is beginning to take hold of the industry is allowing for growth in the microfinance sector, are these changes really benefiting the poor and encouraging development?

The microfinance sector has matured and proven itself over the past thirty years as a valuable poverty alleviation program that can sustain itself with high repayment rates, relatively low interest rates, and its ability to cover its own costs. Along with its success has come an increased interest in expanding the sector to meet the needs of every individual who lacks the ability to take advantage of traditional funding sources.

As microfinance has expanded to try to match demand, it has collided with a problem: Where will the funding for expansion come from? Traditional funding for microfinance institutions has mainly been received from subsidized funding sources because of the sector’s origin in NGOs. However, because of microfinance’s successful past, the industry has experienced a level of rapid growth and subsidized funding has been unable to fulfill the demands generated, thus causing microfinance institutions to experience a shortage in funding as resources have been stretched too thin.

In the 1990s, innovative microfinance institutions began looking towards the commercial sector as an outside, nontraditional source of funding that would allow them to ex-



This small business which manufactures cinder blocks and sinks has grown in part through access to microcredit.

pand their operations. These institutions understood that their programs had advanced to an efficiency level that would allow them to cover their costs even if they were to pay interest on their capital. Some microfinance NGOs entered into the commercial sector by appealing to international investors who desired a return on their investment but also wanted to contribute to a social cause. Other NGOs began utilizing the commercial sector for funding by offering savings deposit services to clients in addition to their loans. Although savings services are not completely in the commercial realm, they do overstep the conventional relationship between microfinance and NGOs by entering into services commercial banks traditionally provide.

The migration into commercial banking territory caused these pioneering microfinance institutions to be subject to government regulations similar to those applied to banking institutions. This recent “up-scaling” trend of non-regulated microfinance NGOs into regulated microfinance institutions has allowed the world to see that microfinance can operate in an open market and be sustainable. Witnessing the success of regulated

microfinance institutions, some traditional banks are reassessing their previous prejudices against the poor and are beginning to offer microfinance services as well, in what has been dubbed going “down-market.”

According to an ACCION study in 2005, titled *The Profile of Microfinance in Latin America in 10 Years: Vision & Characteristics*, in the next ten years Latin America will experience a shift in their microfinance sector as regulated microfinance entities replace microfinance institutions and every commercial bank transitions into the microfinance sector by offering loans to low income populations.

In December 2004, regulated microfinance institutions alone served seventy-three percent of Latin American microfinance clients, or a total of eighty-eight percent of microfinance funds. Evidence of average annual growth rates in Latin America further supports ACCION’s conclusion that two models of microfinance will prevail in the region.

Although NGOs are still the most active in Latin America, they had an

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evaluating partner agencies looks in detail at social criteria including the number of women borrowers, group lending and the smallness of loans, community remoteness and the degree they are financially unserved. We also seek to loan for agricultural and livestock projects, housing, and the production of socially beneficial products. In addition, as readers know, WCCN has participated in two in-depth studies to determine how microcredit is meeting the needs of the families and communities served.

Now 15 years later in 2006, we find that as part of the fast growing community investment movement we have a lot of company. According to the Social Investment Forum in 2000 \$5.4 billion was invested in communities. By early 2005 this total had reached to \$19.6 billion. The Social Investment Forum Foundation and Coop America's 1% Campaign has a goal of reaching \$25 billion in community investment assets by 2007. They call for individuals and institutions to commit 1% of their banking and investment dollars into community development financial institutions (CDFIs). This is an industry which hardly existed in 1991!

Microcredit is a vital step in the transfer of assets to those places in the world most denied access to capital.

CDFIs (also called community investment institutions, CIIs) are usually non-profits and they include community development banks, credit unions, loan funds, venture capital funds, pooled funds, micro-enterprise funds and others. They offer opportunities for investment, usually fixed income investments, loans or deposits in this country and around the world. The NICA Fund

is one such investment option. We might be called a pooled loan fund, and our partner agencies, as Nicaraguan CDFIs, include micro enterprise loan funds, and credit cooperatives.

WCCN has its roots in Wisconsin's sister relationship with Nicaragua and the NICA Fund is part of our wider program. As with CDFIs, WCCN remains a small organization and investors participate in the NICA Fund's direct connection with the development organizations and with end borrowers— micro enterprises, small manufacturers, co-ops, small coffee producers, farms, etc. Many of us on WCCN delegations in these 15 years have met with partner agencies and visited the families and communities who are our ultimate partners. This is and has been a unique opportunity.

There are similar direct community investing options, community development banks, credit unions and loan funds in every state and most communities of the US. It's also possible now for someone seeking to invest for the social good and a diverse portfolio through pooled funds such as the Calvert Foundation and large microfinance options such as Accion International and Oikocredit which are accessible vehicles for investing internationally in the third world. Go to www.calvertfoundation.org for a listing of other such options and for further information on the Calvert Foundation, which like most pooled funds offers minimum investments of \$1,000. It ended 2005 with \$82 million invested through 195 CDFIs and loan funds (including the NICA Fund) in 106 countries. 34.2% of the funds were placed outside the US.

The Chronicle of Philanthropy, October 26, 2006, is hopeful that the awarding of the Nobel Peace Prize to Muhammad Yunus (founder of the Grameen Bank in Bangladesh in the 1970's) will "provide a lift to the already growing field of microfinance and bring financial services to a larger percentage of the world's poor."

Since the first Global Microcredit Summit in 1997 micro loans have

reached more than 81 million of the world's poorest families. 420 microfinance organizations accounted for 78% of these clients, 84% of whom are women.¹ Assets in international loan funds in 2005 totaled \$165 million. While microfinance is not the be all and end all of needed community economic development it's a vital step in the transfer of assets to those places in the world most denied access to capital. To learn more go to www.socialinvest.org.

Now 15 years later in 2006, we find that as part of the fast growing community investment movement we have a lot of company.

The NICA Fund has grown to become the 2nd largest source of funding to microfinance in Nicaragua. As of December 2005, the organizations which make up ASOMIF, the trade association of microfinance organizations, had portfolios totaling over \$142 million, and they reached 298,774 borrowers.² However, given this, what percentage of Nicaragua's poorest are reached? We know that poverty in Nicaragua has not been eradicated. It is easy to see that a large percent of Nicaraguans do not have adequate housing. How much more community investment is needed in Nicaragua? And in the world? What would be the impact in Nicaragua, in the US, in the world if small and large investors committed at least 1% ?

Are you a community investor? Are you a NICA Fund investor??

References

¹ Daley-Harris, Sam, *State of the Microcredit Summit Campaign Report 2006*.

² *Microfinanzas*, No. 10, December 2005.

Global Microcredit Summit 2006



By Emily Allred
WCCN NICA Fund Manager

"We are no longer a footnote in the financial system of the world. We are part of the mainstream — and hopefully we'll be the core of the mainstream." This statement from Dr. Muhammad Yunus' speech with which he addressed delegates at the opening ceremony of the Global Microcredit Summit would have seemed like an exaggeration before October 13, 2006, when the world learned that Yunus and the Grameen Bank won the 2006 Nobel Peace Prize. One month later the fact that microfinance has reached such scale comes at no surprise to the 2,000 microfinance leaders, practitioners, development workers and bankers from over 100 countries meeting at the Global Microcredit Summit in Halifax, Nova Scotia. In the *State of the Microcredit Summit Campaign Report 2006*, 113,261,390 clients are reported to currently be taking loans from 3,133 microcredit institutions as of December 31, 2005. Of these clients, 81,949,036 are considered among the world's poorest, earning below US\$1 a day.

As the Campaign plans for "phase II" over the next nine years, the two official Campaign goals are the following:

- 1) "Working to ensure that 175 million of the world's poorest families, especially the women of those families, are receiving credit for self-employment and other financial and business services by the end of 2015.
- 2) "Working to ensure that 100 million of the world's poorest families move from below US\$1 a day adjusted for purchasing power parity (PPP) to above US\$1 a day adjusted

for PPP, between 1990 and 2015"

Last month I was privileged to attend the second Global Microcredit Summit where delegates seeking to reach these goals were gathered. In this forum we could share experiences and learn best practices. Leaders in the field spoke on how microfinance is expected to continue growing and what must be done to reach greater scale. We engaged in debates over the degree to which microfinance is accomplishing its purpose of poverty alleviation. Research was shared and strategies were created in order to reach more of the poor, attract more funding, and enhance positive social impact. Amidst all the study and discussion, there was a spirit of celebration and excitement.

Among the huge diversity of cultures displayed in traditional attire, I found the ones who preferred suits to be the most intriguing. Initially my attitude towards them apprehensive, especially after Yunus' reminder that "Microcredit is not an area where we want to maximize profits. That's not why we're in microcredit." I also assumed the frustration of the 98% of MFI's who lack access to commercial funds in my sentiment toward the bankers.

On the other hand, the shortage of funds is obviously a major obstacle in achieving the goal of reaching 175 million families with credit. Certainly the NICA Fund partners demand far more the \$6.4 million WCCN is currently able to lend. The participation of bankers in the Summit had suddenly become a promising sign.

The Summit revealed that the practice of microfinance is becoming part of the mainstream not only because it is viewed as an effective poverty reduction tool attracting philanthropists, but also because it is an emerging industry attracting business people. Sources of funding are becoming more diverse and instruments for directing funds are becoming quite sophisticated. Commercial banks are as enthusiastic about microfinance as NGO's, despite their different reasons.

One can imagine that commercial funding alone could accomplish the first goal of the Microcredit Summit Campaign. However, the second goal of ensuring that 100 million families rise above \$1 a day is more complicated. If we are to be effective in our efforts fighting poverty, NGOs and banks must work collaboratively. A development worker and a banker may not have had much in common in the past, but microfinance has presented a model where the talents and resources of both must be employed.

The commitment of NICA Fund investors has allowed WCCN to fund microfinance since 1991. WCCN focuses on the social impact of microcredit, through research such as the upcoming Social Impact Study, and continues to place social impact as the greatest consideration in decision-making. Our mission literally takes us to new frontiers where borrowers had no access to financial services before. In the meantime, our support has helped our partners to increase their portfolios and reach thousands of these new borrowers each year. In this way, we have helped prepare them to mobilize even greater amounts and reach the scale where they can obtain low cost funds from bankers. This is how microfinance becomes "part of the mainstream" and today at least two major international banks are funding microfinance in Nicaragua.

The emergence of banks in the microfinance industry is welcomed in Nicaragua where the demand for microcredit by the working poor is immense. However, as commercial banks join the industry, WCCN recognizes new challenges in ensuring that the development aspect of the microfinance industry remains at the heart of the movement. We remain committed not only to the much needed growth and expansion of the industry, but more importantly, echoing the sentiments of the Nobel Committee, to finding lasting peace and social change through poverty alleviation.

Where is the Women's Empowerment Project Headed?

By **Carlos Arenas**
WCCN's Executive Director

WCCN is proud to commemorate 15 years working in microfinance and is no less proud of its work with the Nicaraguan women's movement during the last 16 years. In fact, the Women's Empowerment Project (WEP), is WCCN's longest-running program. It was initiated in May 1990 following a delegation to Nicaragua focusing on the work of "Casas de la Mujer" (Women's Centers). In this article I would like to provide an overview of what we have accomplished over the years and elaborate on where WEP is currently headed.

A little background

Prior to 1990, WCCN had not been very involved in women's issues in Nicaragua. For example, before launching WEP, WCCN's newsletter had published only one article on women in Nicaragua. The Spring 1991 edition of WCCN's newsletter Sister State Update announced the creation of WEP. The original goals and main objectives of WEP were the following:

- 1) To build a lasting relationship between North American and Nicaraguan women;
- 2) To promote empowerment of U.S. and Nicaraguan women so that they may continue to play a decisive role in the democratic process and participate in the equitable development of our communities; and
- 3) To inform women nationwide of the current situation of women in Nicaragua.

Toward these ends, the objectives of the project include:

- To provide technical assistance, financial, material, and moral support to Nicaraguan women's centers and other initiatives of Nicaraguan women;
- To publish reports and research



Young women associated with the Xochilt Acalt Women's Center during a study tour in 2004.

related to the work of the Women's Empowerment Project and the situation in Nicaragua;

- To link women's centers or groups in the U.S. with counterparts in Nicaragua;
- To host educational visits by Nicaraguan women to the United States;
- To organize delegations of North American women to Nicaragua to exchange ideas, share experiences and establish new relationships."

In June 1992, when the women's delegation launched the "Campaign Against Domestic Violence", this issue became the main focus of WEP for the next ten years. The aim of the campaign was to "exchange information and develop strategies and concrete solutions to turn the tide of violence against women." Even though the issue of financial support to Nicaraguan women's organizations was not the main objective of WEP, the reality was that the project created an ambiguous situation on this topic that generated some confusion and frustration. To clarify the main purpose of WEP, a new mission statement was made public at the end of 1994, which has since remained un-

changed. It stated the following:

"The purpose of the Women's Empowerment Project is to build a lasting relationship between North American and Nicaraguan women, to promote the empowerment of U.S. and Nicaraguan women so that they may continue to play a decisive role in the democratic process and participate in the equitable development of our communities, and to inform women nationwide of the situation of women in Nicaragua."

Main highlights of WEP

During the first nine years of WEP, our work focused on three women's collectives from Managua: Ocho de Marzo, Xochilt, and Itza. The work of these groups was a combination of health, legal and psychological services for women in some of Managua's poorest neighborhoods. Originally, these groups worked under a single umbrella called the Inter-Collective but later decided to separate and become independent from each other. However, in 1999 Nicaragua was hit by the worst hurricane in over a century and the needs of women changed drastically. WCCN started working with the Network of Women Against Violence, which serves as a national umbrella orga-

nization for most of the women's groups. Between 1999 and 2001, our work with the Network focused on emotional recovery after the trauma caused by Hurricane Mitch. During the last five years, WCCN has expanded the number of contacts and carries out small projects with other women's groups. However, little by little WCCN has been learning more and collaborating with women's groups working in rural areas. As a result, we have found that women's access to economic resources would be the main topic for redefining WEP's focus, as we will elaborate in the last section of this article.

WCCN's annual study tours that focus on women's issues have been the "umbilical cord" that has kept WEP connected with the Nicaraguan women's movement over the years. WCCN has organized seventeen study tours focused on women's issues. The counterpart of those exchanges has been inviting Nicaraguan women to the U.S. to exchange experiences and learn from their struggles. To date, WCCN has hosted at least 29 Nicaraguan women's leaders and/or members of Nicaraguan women's organizations, and some have returned more than once. WEP has also developed an extensive number of activities and projects in solidarity with the Nicaraguan women's movement.

WCCN's approach to women's issues has always gone beyond simply working with Nicaraguan women, but has also worked from a feminist perspective.

Many positive things could be mentioned about WEP, however, I would like to highlight only three; first, WEP has always had a feminist approach to women's issues. It is important to emphasize that even though WCCN is not a women's organization, it is deeply committed to women's strug-



Women of the coffee cooperative and the Fundación Entre Mujeres, FEM, in their coffee field. (see page 9 for more information) Photo courtesy of Just Coffee

gles against gender inequalities in Nicaragua and elsewhere. In that sense, WCCN's approach to women's issues has always gone beyond simply working with Nicaraguan women, but has also worked from a feminist perspective. I think that this is one of the main legacies of WEP that should be valued, maintained and developed further in the years to come.

Second, WEP has been fortunate to accompany the Autonomous Women's Movement since its inception. Even though WEP's partnership originally focused on three women's groups, it has always maintained an interest on the Nicaraguan women's movement as a whole. For many years this was made possible by the fact that Madisonian Donna Vuckelich was WCCN's representative in Nicaragua. For instance, "United in Diversity," the national gathering of Nicaraguan women, which is considered the birthplace of the autonomous women's movement, was attended by Donna for WCCN in May 1992. Finally, WCCN has built a unique network of contacts with and knowledge of the Nicaraguan women's movement. Over the years, WCCN has developed close relationships with women's organizations at the national level, such as

the Network of Women Against Violence, the National Feminist Committee, and the Autonomous Women's Movement. At the same time, WCCN has developed relationships with local collectives and groups in Managua, León, Estelí, Matagalpa, Chinandega, Malpaisillo, Rio Blanco and Mulukuku.

A niche for WCCN in women's issues

Despite all our valuable work on women's issues during the last 16 years, we have concluded that until now WCCN does not have a specific niche that could identify us as significant contributors in this area. As a result, WCCN's board recently adopted the topic of women's access to economic resources as a topic to become WEP's niche. Additionally, WCCN will continue supporting the overall struggles of the Nicaraguan women's movement and will continue to address the issue of violence against women. However, WCCN will focus its energies on combating domestic violence through facilitating women's control of economic resources. Our main contribution will be through the demonstrative effect of "pilot projects" and WCCN's reflections on

those topics and experiences.

The idea is that the topic of women's access to economic resources will be subdivided in three main issues: women's access to credit, women's access to land, and women's access to income-generating activities.

Promoting women's access to credit:

The NICA Fund has among its values a special emphasis on allowing women the opportunity to have access to credit. As a result, WCCN has developed a system to periodically measure the percentage of borrowers by gender, including the amount of money that each gender receives from each NICA Fund partner agency. As part of this effort to promote awareness on the importance of allowing women to have access to credit under equal conditions to men, WCCN's social impact study that is currently underway will have a chapter dedicated to shedding more light on the issue. In this way, WCCN aims to be a leading force on this issue, providing the necessary data to promote this topic within the microfinance industry in Nicaragua.

Facilitating women's access to land:

WCCN has approached the issue of women's access to land in different ways. First, we began learning more about the topic directly from women's organizations in Nicaragua working on this topic. As a result, the last three WEP study tours have focused on this issue, allowing us to visit and establish direct contact with most of the women's organization facilitating land access to women as part of their women's empowerment process.

WCCN has also tried to learn more from people working on this topic at an academic level, as well as from government officials working in this area. For this reason in the Summer of 2006, WCCN organized a panel at the Midwest Social Forum on this topic and invited two Nicaraguan experts, Sonia Agurto, director of the research organization FIDEG, and Patricia Hernández, the head of the

Gender Unit at the Rural Titling Office. Last year, WCCN also organized another panel on this topic during the annual conference of the North Central Council of Latin Americanists (NCCLA) held at Marian College in Fon Du Lac, WI. For that event WCCN invited Juana Delia Rojas, from the Xochilt-Acalt Women's Center in Malpaisillo, who is in charge of the process of promoting land titles among the members of her organization.

WCCN's board recently adopted the topic of women's access to economic resources as a topic to become WEP's niche.

WCCN has partnered with the *Comité de Mujeres Rurales* (CMR), located in the Nicaraguan city of León to facilitate access to land to some of the landless women who have been working with this organization in the process of empowerment. As a result, WCCN has raised funds to buy 5 acres of land. Currently, the CMR is looking for the land to be purchased. The idea behind the purchase of this land is to design a mechanism that allows us to transfer that land over a period of time to the beneficiaries using a small rotating fund. If the project is successful, it could become a model to be extended to other groups.

As a step forward in this project in the coming year, WCCN will be working to elaborate a study on the impact of access to land and housing on levels of domestic violence in Nicaragua. The idea is to replicate a pioneer study based in India, which demonstrated that women's access to land and housing contribute significantly to ending domestic violence. In this project WCCN is working in collaboration with Shelly Grabe, a researcher from the University of Wisconsin-Madison, who will lead the project. Through this study we aim to work collaboratively with the Nicaraguan Network of Women Against

Violence, the Xochilt-Acalt Women's Center from Malpaisillo, and the research organization FIDEG.

Contributing to women's access to income-generating activities:

WCCN has concluded that one very useful way to contribute to the efforts of Nicaraguan women's organizations that have income-generating activities as part of their women's empowerment programs is by facilitating contacts with other groups in the U.S. For instance, last June during the WEP study tour we visited, for the second time, the women's organization *Fundación Entre Mujeres* in the city of Estelí. This group is one of the few women's organizations in Nicaragua that has included the issue of access to land as part of their women's empowerment process. Women from some of the communities are working as coffee producers and have been trying to get into the fair trade market.

During the meeting with our delegation, it was evident that the main way to support them was by locating buyers of their organic coffee. WCCN contacted Just Coffee, a coffee roaster based in Madison, and explained to them the importance of supporting this cooperative of feminist coffee producers. WCCN also transported a sample of beans for Just Coffee. As a result of this effort, Just Coffee visited the cooperative in early November, and they are now in the process of closing a deal to purchase their coffee for distribution in the U.S. (see article on the next page by Matt Early).

As you can see, all these ambitious ideas are built on the experience and cumulative knowledge that WEP has developed over the last 16 years. WCCN is committed to use the NICA Fund's successful experience to leverage WCCN's other projects that for several reasons had been left behind or shaded by the scale of our fund. With your support we will be able to succeed and expand the number of WEP's achievements.

Just Coffee Strikes Deal with Women's Co-op



Just Coffee co-founder Matt Early during his visit to women's cooperatives in rural areas of Estelí in November 2006.

By Matt Early Just Coffee

Recently fellow Just Coffee worker-owner Mike Miller and I had the opportunity to visit the organization La FEM (*Fundación Entre Mujeres*) in Estelí, Nicaragua. After finding out about the group from WCCN, we were excited to meet them and learn more about their work while exploring the possibility of buying their coffee to roast and sell in Madison.

La FEM is not simply a coffee growing cooperative. Founded in 1996,

they organized to work on issues of domestic violence against women, women's health, education, and job training. Upon meeting them we were immediately impressed with their level of organization and their dedication to women's rights as a political and social imperative.

Our time with La FEM was incredible. We were able to meet with the Development Committee, the membership of one grower cooperative, and the Directivas of all four cooperatives. The highlight of the trip was spending all of one

day on horseback riding through the mountains with producers, going from field to field, meeting growers and getting to know them.

When we returned to Estelí for one final meeting, we were floored by the "interview" that the group gave us. The FEM co-ops sold their coffee to a German group last year under fair trade terms but were disappointed by the lack of interest on the buyers' part to construct a larger project that extended beyond coffee. The producers wanted to know that we at Just Coffee are interested in a deeper partnership, one that would build connections between groups in Madison and the women of La FEM. They also wanted to make sure that their coffee would not end up at "Wal-Mart" or any other trans-national or unethical stores. After discussing possibilities for collaboration, we left the room so that they could take a vote on whether they should work with us.

I am happy to report that they unanimously chose to partner with us and we expect to have their coffee for sale by May 2007. We will tentatively be putting together a group to visit them in late winter/early spring to see how we can work to advance our common causes. Please check our website at www.justcoffee.net periodically for more details.

As this year comes to a close, consider making a year-end donation to WCCN or becoming a pledger. Pledging a quarterly or monthly donation is a great way to sustain the work of WCCN through the year.

Support of members like you makes these quarterly newsletters and all of our work possible.

Thank you!

You can use the response form on page 15, or simply enclose your donation in the envelope provided. Thanks!

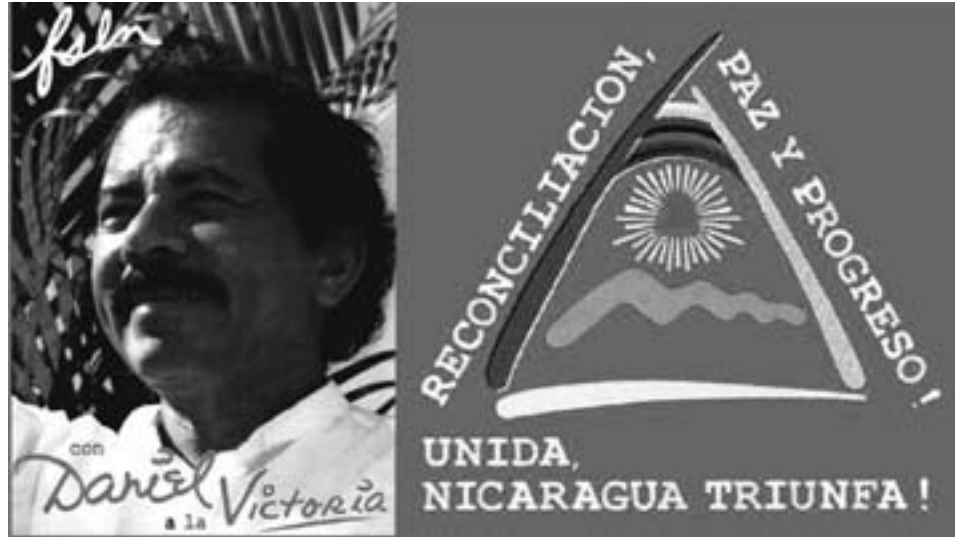
With a Message of Reconciliation, Peace, and Progress Ortega Regains Presidency

By Susan Frisbie
WCCN Development and
Marketing Director

On Tuesday, November 7th millions of voters across the United States sat in their living rooms watching the television while waiting to hear the latest mid-term Congressional election results arriving from the polls. The night did not end well for the Fox News faithful who may have found further news to sulk about if they watched the news ticker at the bottom of the screen, as a familiar name they hadn't seen in quite some time scrolled by. That name was Daniel Ortega. Though the Nicaraguan elections were held on Sunday, November 5th, it wasn't until Tuesday evening with 91 percent of the ballots counted that Eduardo Montealegre, the U.S. government-favored right-wing candidate conceded the Nicaraguan presidential election to Ortega.

So far Washington's response to the election results has been relatively quiet in comparison to pre-election, anti-Ortega rhetoric that grabbed media headlines across Nicaragua.

The elections were overseen by a slew of observation groups including those from the Organization of American States and the Carter Center. Though noting minor problems such as some late poll openings, former President Carter reported that the Nicaraguan election was a "much more careful and meticulous process and much more uniform throughout the country than anything we've ever seen in the United States."¹ With all ballots tallied, Ortega, with nearly 38% of the vote, was the clear presidential



Promotional photos from FSLN 2006 campaign. www.fsln-nicaragua.com

victor with right-wing ALN-PC candidate Eduardo Montealegre coming in a distant second with 28 percent, Jose Rizo of the right-wing PLC receiving 27 percent, and Edmundo Jarquin of the MRS, a dissident Sandinista party, with 6 percent.

So far Washington's response to the election results has been relatively quiet in comparison to pre-election, anti-Ortega rhetoric that grabbed media headlines across Nicaragua. To date, the pre-election pleas of Republican Congressmen Dana Rohrabacher, Ed Royce, and Pete Hoekstra who had asked Secretary of State Condoleezza Rice and Homeland Security Secretary Michael Chertoff to cut off remittances sent by Nicaraguans living in the U.S. should Ortega win, have gone unanswered. Similar threats of an interruption in aid and trade programs to Nicaragua should so-called "anti-democratic forces" take the presidency were also made by Commerce Secretary Carlos Gutierrez and Adolfo Franco, the second highest ranking official with USAID.

However, Carter, who spoke with Secretary Rice upon the certification of the results, relayed that Rice assured him that "the White House and State Department would accept

the results of the election graciously and would respond positively to similar attitudes by the Sandinista government."² Meanwhile, national security spokesman Gordon Johndroe said, "The United States is committed to the Nicaraguan people. We will work with their leaders based on their commitment to and actions in support of Nicaragua's democratic future."³

One could argue that the U.S. government's idea of a country committed to a "democratic future" is one in the same as a country that shares U.S. economic interests. If that is the case, then much to the dismay of left-wing Sandinista ideologues, the 2006 reincarnation of Daniel Ortega may leave Washington with little to fear. Throughout his campaign, Ortega dressed in a white shirt, often with the Nicaraguan flag draped carefully on his shoulders, preached of reconciliation, faith, and the free market.

His theme of reconciliation is best exemplified through his alliance with the man occupying the vice-presidential slot on the presidential ticket, Jaime Morales Carazo. The old saying says politics can make strange bedfellows, and nowhere is that better expressed than with Nicaragua's

president and vice-president elect. Morales is a former Contra-leader whose mansion was confiscated following the revolution, after which Ortega himself made Morales's home his own. However, looking at the relationship through a critical lens it does not seem as odd as first presented. Much of Ortega's criticism has lied in the iron grip he maintains over the FSLN and his role in the power-sharing pact established in 2000, which has left Nicaragua's democratic institutions at the mercy of its two strongest political parties—the FSLN led by Ortega and the PLC led by ex-president and convicted felon Arnoldo Alemán. Morales had served as a political advisor in the previous two elections for the PLC and helped broker the deal, which institutionalized the pact.

Ortega has also found an ally in the Catholic Church. The former church foe now regularly attends Catholic mass and was married to his long-time companion Rosario Murillo by his former enemy Cardinal Miguel Obando y Bravo in 2005. Whether Ortega truly had a spiritual awakening or if his newfound faith is simply a political maneuver is widely contested, but one thing is for sure—the church now plays a key role in Ortega's policy making. In the month leading up to the election a highly controversial constitutional amendment banning therapeutic abortions was passed by Nicaragua's National Assembly, making abortion illegal even when the mother's life is at risk and in cases of rape and incest. Ortega was one of the amendment's leading proponents.

Additionally, despite his socialist past, Ortega has gone out of his way to reassure business interests in Nicaragua that he embraces the free market, encourages foreign investment, and respects private property. In fact, the macroeconomic model that Ortega and his former-banker vice-president Morales support is not unlike that of previous administrations and their election opponents. Still, Ortega has continuously quoted Pope John Paul II's critique of "savage capitalism", promising that his government will

offer a more just capitalism.

The political situation Ortega faces now is not to be envied. He will have to perform an incredible balancing act—ensuring foreign and business interests that economically speaking he is a changed man while enacting much needed social reforms at home. Though the outgoing President Enrique Bolaños, a sweetheart of Washington, has boasted of the success of his administration in spurring economic growth, he forgets to mention in his triumphant discourse the extreme inequality that still plagues Nicaragua, not to mention the abysmal level of education and healthcare public spending for which his administration is responsible. In Nicaragua the wealthiest 20 percent of the population maintains 60 percent of the national income with the poorest 20 percent comprising a dismal three percent.⁴ Inheriting these problems is Ortega who not only must try to keep campaign promises to his supporters that come from starkly different backgrounds from wealthy conservative right-wingers to the loyal Sandinista poor, but must also bear the weight of Washington's eyes on his every move.

Throughout his campaign, Ortega dressed in a white shirt, often with the Nicaraguan flag draped carefully on his shoulders, preached of reconciliation, faith, and the free market.

Ortega today, though still sporting his trademark mustache, bears little resemblance to the military fatigue-wearing socialist of the 80's. Why then has Washington tried so vigorously to prevent his election, even going as far as offering, to no avail, to fund primaries to unite the right against him?

The rhetorical battering that Ortega has endured from Washington is

perhaps indicative of the dogmatic foreign policy of the Cold War conservative ideologues that have found new political life in the Bush White House. The political reemergence of Ortega is undoubtedly a slap in the face and a constant reminder of failed foreign policy. Additionally, the mere mention of the names Fidel Castro and Hugo Chavez sparks fear and paranoia in this political breed. Despite his message of reconciliation with the right, Ortega has been unwavering in his support of Castro, and Chavez's promises of low-priced oil certainly helped Ortega's campaign across Nicaragua, where power outages have been rampant and unpredictable. Instead of working to find an alternative to Chavez's offer, Washington has relied on what has worked in the past—scare tactics. Though successful in the past, these tactics have lost steam. With 53% of the Nicaraguan population now under the age of 18, threats of war and economic strangulation do not run deep. Poverty is all this new generation has known and that poverty has grown under pro-Washington administrations.

It is perhaps too early to speculate as to whether the second-coming of Ortega will reap the economic as well as social gains he has promised. During the campaign, U.S. Ambassador to Nicaragua, Paul Trivelli, referred to Ortega as a "tiger that has not changed his stripes," when clearly, at least rhetorically, he has. Time will tell if policy follows rhetoric. Time will also tell if the stripes of Washington policymakers have changed.

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- ¹ Elliott, Debbie (2006) "Carter Helps Monitor Nicaragua Presidential Elections," *All Things Considered*, NPR, November 5.
- ² Carter, Jimmy (2006) "Nicaraguan Elections: Trip Report by Former U.S. President Jimmy Carter," *The Carter Center*.
- ³ Reuters (2006) "Supporting Ortega Hinges on Democracy, says U.S." November 7.
- ⁴ Nitlapán-Envío Team (2006) "Are We Ready to Leap Out of Poverty in a Single Bound?" *Envío*, September.

continued from page 3

average annual growth rate of just 36% in 2005 compared to 41% by regulated microfinance institutions and 72% by commercial banks, the newcomer to microfinance. Even with data comparisons over time, regulated microfinance institutions, such as the former NGO turned distinguished financial entity Procredit in Nicaragua, have had higher growth rates than their NGO counterparts. The future of microfinance appears to be one dominated by regulated microfinance institutions and commercial banks, but will the commercialization phenomenon in the microfinance sector adhere to the founding principles of microfinance and benefit the poor and encourage development?

Witnessing the success of regulated microfinance institutions, some traditional banks are reassessing their previous prejudices against the poor and are beginning to offer microfinance services as well, in what has been dubbed going "down-market."

Critics claim that as commercialization takes hold of the microfinance industry and transforms NGOs into regulated microfinance institutions, the balance between business and development will tip in favor of the former. One criticism used to support the position that business dominates the development concerns of regulated microfinance institutions is that many NGOs become more of a banking institution under regulated microfinance, or pair with a banking institution. Then their social programs previously offered, for example business development services, are reduced or eliminated.

Many people, such as Muhammad Yunus, one of the founding fathers of microcredit, believe that the social programs NGOs provide are not a necessity because the poor merely have under-utilized skills as their disadvantage and are solely in need of capital not training.

In exchange for diminished social programs, regulated microfinance institutions can provide the poor with much needed services such as savings, remittances, and other services depending on a country's regulation of microfinancial activities. The potential for growth in regulated microfinance institutions, because of their increased access to capital and ability to gain funding for their services from diverse sources, allows the program to expand and reach many more people who lack traditional banking services than an NGO may be able to do.

Another criticism commonly leveled against regulated microfinance institutions is that they are permitted to charge higher interest rates to their clientele than the regulatory cap established by many governments for traditional banking institutions, and thus are hurting the poor with unfairly high interest rates. It is true that many governments allow regulated microfinance institutions to charge higher interest rates than banks are permitted to charge, however, that is because it costs more to make smaller loans. In order to cover the cost of funds, loan losses, and higher administrative costs involved with microloans, regulated microfinance institutions must be permitted to exceed caps placed on traditional banks. If the caps are not loosened for microfinancial activities, regulated microfinance institutions can not afford to lend small loans, and the damage done to the poor from the inability to access capital is much greater than the damage of a higher interest rate.

A final criticism of regulated microfinance institutions is that the regulatory framework is a hindrance to its development goals because increased resources go towards adding

and training staff, there is decreased flexibility when dealing with clients, and there is an increased workload for staff because of the paperwork and requirements involved with reporting to the regulatory authorities. Although regulations do provide a level of bureaucracy that translates into more work for the microfinance institution, there are benefits to the formalities. Regulatory supervision of financial institutions improves the credibility of the institution by ensuring that risk is minimized and failing institutions are improved or closed. Regulations also protect borrowers from unethical lending and collection practices, protect depositors from losses, and provide transparency to borrowers about the costs associated with loans.

The commercialization of microfinance has created the need for governments to adopt specialized regulations for the sector that may differ from traditional banking regulations.

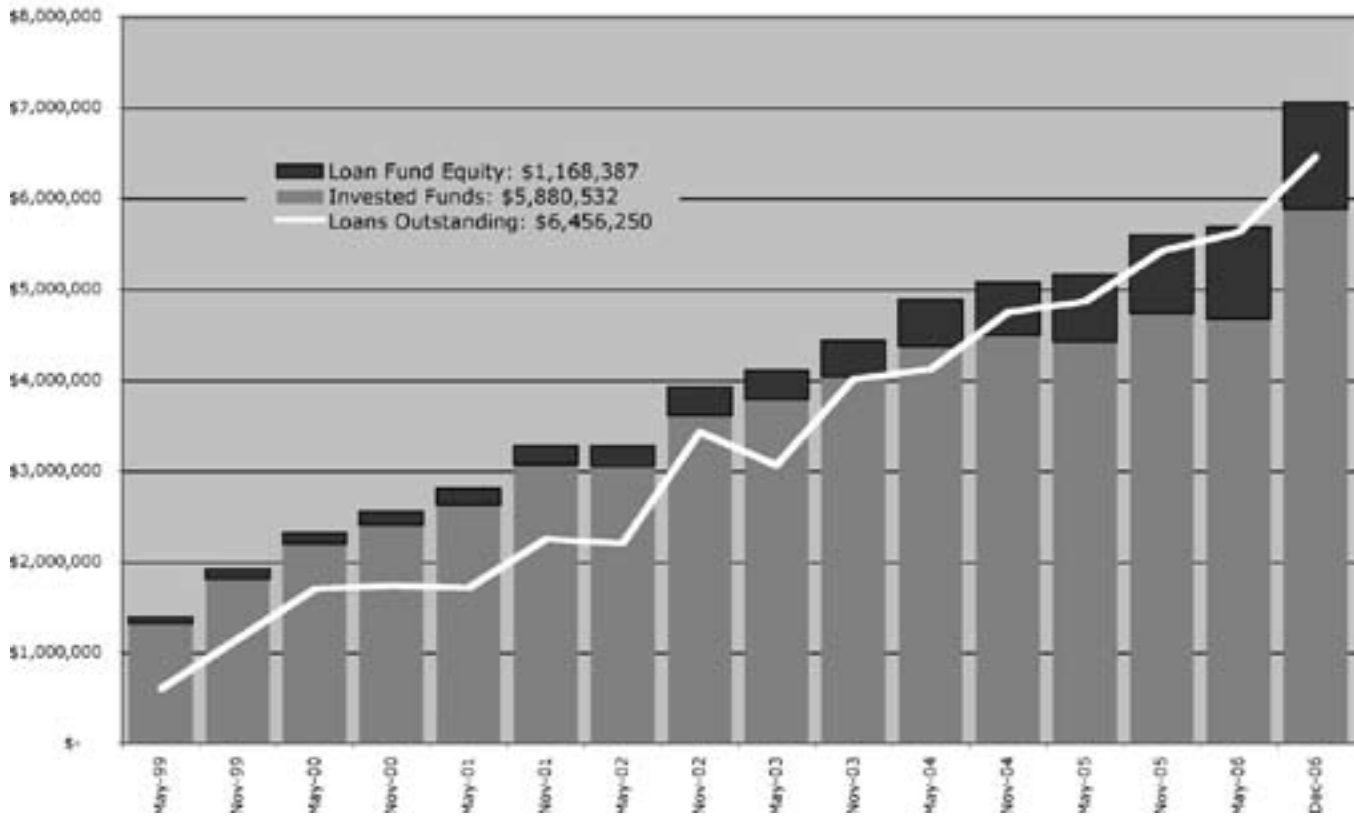
Although there has been a lot of research conducted on what types of government regulations countries should apply to microfinance institutions compared to traditional regulations applied to banking institutions and how these institutions should be supervised, a majority of the research in this developing field is theoretical. Very little research has been conducted to determine whether regulated microfinance institutions serve the "poor" or "very poor" in each country better than their NGO counterparts. This is mainly because it is difficult to determine which borrowers fit into the "poor" or "very poor" categories, and it is problematic to compare and draw conclusions among microfinance agencies and countries when data reports and

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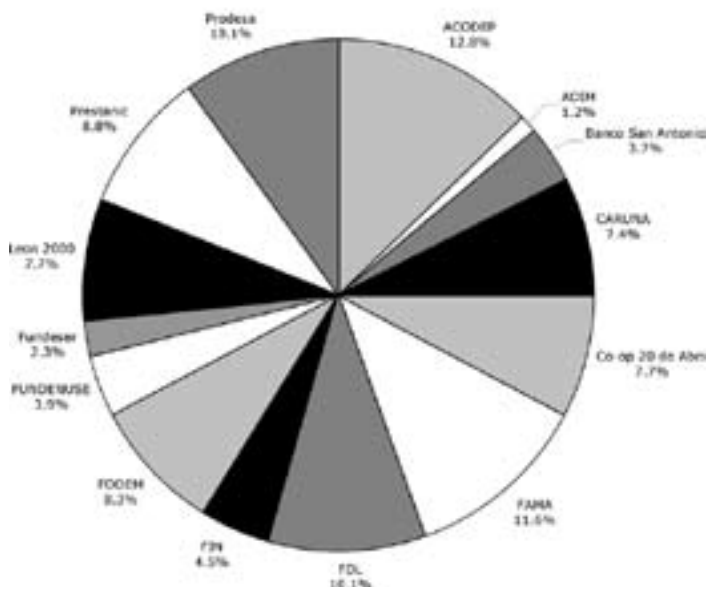
NICA Fund Portfolio as of December 1st, 2006

Total loan fund now exceeds \$7 million!

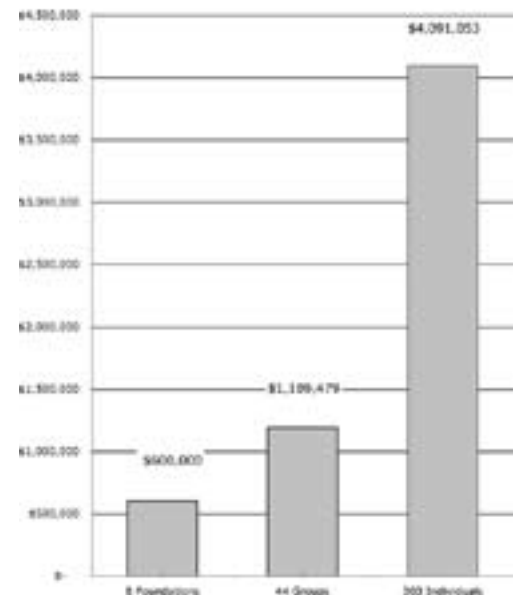
NICA Fund Total Size as of December 1, 2006: \$7,048,919



NICA Fund Portfolio as of 12/1/2006



NICA Fund Investors



Commercialization *continued from page 12*

definitions differ greatly.

What is certain is growth in the microfinance sector, which the commercialization phenomenon has stimulated, improves outreach, encourages new and better products for borrowers, improves sustainability, reduces average operation costs when fixed costs are significant, allows the industry the ability to attract more loans from potential lenders, and spurs on more growth.

An environment of regulations for microfinance that is conducive to growth is necessary to maintain the sectors original intention to aid development and those without access to traditional banking services.

The commercialization of microfinance has created the need for governments to adopt specialized regulations for the sector that may differ from traditional banking regulations. One necessary specialized regulation specific to the microfinance sector is the ability to charge a higher interest rate than the traditional government cap in order to allow the sector to cover the higher transaction costs associated with its activities. The sector

also needs regulatory authorities to create special provisions that allow unsecured lending to their clients that lack conventional collateral, the use of portfolio quality to assess risk, and the creation of simpler reporting methods for tracking loans and accounting procedures.

Government cooperation in every country is needed to adjust regulations to the realities of the evolving microfinance industry. With the support of each country's regulatory authorities, the new, commercialized microfinance sector will be able to reach its full potential and increase its scale of services to meet the world's needs.

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WCCN is offering the NICA Fund video at no charge. Donations are accepted to cover costs.

Borrower Profile:

Bianca Urbina

Borrower of Prodesa

Bianca's bright pink house is exemplary of the style of homes in the colorful neighborhood of Santa Clara, a community of Juigalpa. She and her seven children, her aunt, and two grandchildren share the home built from concrete with several rooms and running water. Only a short time ago, however, Bianca and her family were sharing a single room made from scraps of plastic and zinc and staying dry was a constant challenge. She longed for a house where she wouldn't get wet, but she needed help.

Neighbors told her how she could go to Prodesa, a microfinance institution, and they would help her by providing a construction loan. Prodesa is a relatively new NICA Fund partner with a specific focus on lending for housing construction and improvement. Bianca had never borrowed money before but was



Bianca in her home built with the help of construction loans.

surprised by how easy the process was. She met with a builder to get an idea of how much she would need, then she met with a representative from Prodesa. A loan promoter from Prodesa helped her fill out the forms and she received her first loan for \$240. She has since paid off that loan and two others, and is now using her fourth loan to continue the

expansion plans on her home.

Bianca is candid that she is able to make her payments working at a restaurant earning \$30 a week. "Poor people go further because of programs like the NICA Fund," she claims. "I live better now. It's safer, and I don't get wet."

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