

# Nicaraguan Developments

A publication of the Wisconsin Coordinating Council on Nicaragua (WCCN)

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## Development Bank and Rural Lending



A small scale producer of a coffee cooperative of PRODECOOP in Miraflor, a rural area of Estelí, Nicaragua. Photo by Carrie Hirsch

### By Carlos Arenas WCCN Executive Director

During the last several years, associations of medium and large size rural producers, as well as politicians from the two main political parties have been advocating for the creation of a national development bank in Nicaragua. However, this year the idea of establishing one has gained momentum and has been a main topic of the political debate in Nicaragua.

This topic is highly controversial in Nicaragua due to the mixed experiences that have occurred with these kinds of state institutions from the end of the 1970s through the 1990s. In fact, in the months prior to the revolution of 1979 the development bank that existed was severely decapitalized through a massive transfer of savings out of the country by the wealthiest sectors of the society. During the revolutionary years of the 1980s, small rural producers were able to access credit for the first time from the National Development Bank (BANADES). However, despite being a highly

subsidized credit, most of the debts were pardoned for political reasons, creating a perverse culture of not repaying loans and turning BANADES into a financially non-viable institution. Additionally, at the beginning of the 1990s BANADES turned its lending to wealthy producers and things worsened for the bank. When the bank formally closed in 1997, it had an extremely high concentration of uncollected debts among 6% of its borrowers<sup>1</sup>.

As a result of all this history, the current political debate on the creation of a state entity in charge of promoting rural development has not resulted from an informed analysis of the state of rural finances in Nicaragua. Instead the debate has been made part of a political fight between politicians from the main parties advocating for the creation of the bank and the Nicaraguan government. Although the government has been supportive, they continue to be cautious.

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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.

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## *A letter from WCCN's Executive Director*

With the addition of this winter edition of *Nicaraguan Developments*, we are increasing the number of annual issues of this newsletter from three to four. As I stated in a previous issue, we decided to add an additional issue because thanks to our deep involvement in Nicaragua we have a great deal to share about the news in Nicaragua, and on our contributions to sustainable development and social and gender justice. I would like to thank Alisha Steele, our Outreach Coordinator and editor of *Nicaraguan Developments*, for making this possible and for her wonderful job redesigning our newsletter this year.

In this issue you will find articles about several of our activities during 2005. We have an article about the *Proyecto de Mejoramiento de Vivienda* (PROMEVI), our latest project. PROMEVI is a collaborative effort with Habitar, a Nicaraguan housing organization, with the aim of improving housing sanitary conditions in poor neighborhoods in Managua using in-kind loans in a community administered revolving fund. We are also jumping into the current discussion in Nicaragua regarding the viability (or not) of creating a national development bank. Based on our experience and knowledge of microcredit in Nicaragua, we want to express our opinion and call attention to the success of microcredit organizations in delivering credit to rural areas of Nicaragua, despite all kinds of obstacles.

This year, Emily Allred, NICA Fund's Loan Fund Manager attended the 16<sup>th</sup> annual Socially Responsible Investment Conference. She wrote an article about the growth of community investing as part of the socially responsible investment movement. We have also included two pieces about Nicaraguans we invited to the United States this year. There is a piece written by Shelly Grabe, an scholar and activist on women's rights, about the visit of Juana Delia Rojas, one of the coordinators of the Xochilt-Acalt Women's Center. Juana Delia was invited in October as special speaker at the annual conference of the North Central Council of Latin Americanists (NCCLA) held at Marian College in Fond du Lac. We have also included an interview with Ninette Morales, director of Habitar, who attended WCCN's annual meeting last April to talk about PROMEVI. Finally, we have our regular sections on a NICA Fund borrower, information about the NICA Fund's portfolio, and other interesting data about our investors.

The end of 2005 marks the 21st year of WCCN working with Nicaragua. I would like to thank the all of those people who have made this possible by supporting us over the years. WCCN has grown through the support of members and the dedication of volunteers, committee members, staff, and all those who participate in the varied activities each year. Please help us finish 2005 by making a year-end contribution. It is your continued support and commitment that makes this work in Nicaragua possible. Thank you!

In solidarity,



Carlos Arenas  
WCCN Executive Director

# Women and Development

By Shelly Grabe  
UW-Madison Researcher

For development efforts in Nicaragua to succeed women need to be able to improve their lives and escape poverty. This explains why a large focus of WCCN's efforts is on women's empowerment. As part of an ongoing collaborative effort between WCCN and the women's movement in Nicaragua, one of the co-founders of the Xochilt-Acalt Women's Center, Juana Delia Rojas, visited Madison for the first time this past September. The Xochilt-Acalt Women's Center, located in the rural area of Malpaisillo, has broad objectives to empower women through increasing their economic roles via productive labor and property rights. Juana Delia's visit to Madison was an effort to raise awareness of how women's empowerment must be part of any development agenda.

Juana Delia's visit was spurred by an invitation to present at the North Central Council of Latin Americanists interdisciplinary conference at Marion College in Fond du Lac. Juana Delia shared with a captivated audience how the Xochilt-Acalt Women's Center started and how the various programs succeed in increasing women's empowerment. In addition, Juana Delia presented a talk open to the Madison community titled, "The Keys to Empowerment: The Successful Story of the Xochilt-Acalt Women's Center in Malpaisillo, Nicaragua".

During her short stay, Juana Delia also had interviews with two academics from the UW-Madison campus interested in potential research collaborations to support the center's progress – Susana Lastarria and myself, Shelly Grabe. Susana Lastarria, an expert in land tenure, discussed the gendered nature of land rights with Juana Delia. In their interview together, Juana Delia reported that Xochilt-Acalt



*Juana Delia Rojas giving a presentation in Fond du Lac Wisconsin, to the North Central Council of Latin Americanists, with Alisha Steele interpreting. Photo by Shelly Grabe*

implements *Programa Productivo*, a program for rural women to improve their agricultural production, in an area in which women do not generally own property. According to Juana Delia, women in this area of Nicaragua generally do not have their own land because land inheritance policies and the land reform initiatives of the 1980s typically distributed land to male head of households. However, in order to participate in the *Programa Productivo*, women are required to own a piece of land and are encouraged to request land from either their family members or husbands. Xochilt-Acalt legalizes the transfer of land and assists in processing the land title at no cost to the women. Currently, there are 320 women in 20 communities who participate in this program.

As a psychologist studying the psychology of women, I interviewed Juana Delia about the possibility of conducting feminist research to empirically support the outcomes that the Xochilt-Acalt Women's Center has been reporting. We discussed how a quantitative analysis of the *Programma Productivo* could generate data that supports the

notion that altered gender relations create the necessary context for women's economic security, which thereby contributes to the betterment of the overall society. Specifically, we talked about studying the importance of property ownership in the psychological well-being of women. Juana Delia shared that she witnessed women's ownership of land influencing self-esteem, empowerment, and decreased receipt of domestic violence. During our interview Juana Delia expressed interest in the role that feminist scholars can play in bringing the issue of domestic violence more centrally into the debate on development by demonstrating that ownership of land substantially reduces the risk of violence against women.

During her short stay Juana Delia was able to deliver a presentation at an academic conference, give a talk to the community in Madison, meet with academic scholars interested in collaborative research, and strengthen her relations with WCCN. Her visit highlighted ways in which the women's movement, activists, and women's studies scholars collectively hold the keys to empowerment.

# PROMEVI: Improving Housing in Nicaragua

By Carlos Arenas  
WCCN Executive Director

In developed societies, the “normal” process of housing development usually has the following sequence: it starts with planning, then the land where the housing development will be located is provided with public services. Only after that does construction begin. Once the construction is finished, the houses are finally inhabited.

In developing societies, where access to houses for people in poverty are extremely limited or do not exist at all, the model of housing development is totally the opposite of the “normal” sequence. Instead, the process is that a homeless family seizes a piece of unused land, and from day one start inhabiting it in order to avoid being evicted by the police. Then, in a process that could take years, the house is constructed, and little by little the most fragile building materials such as cardboard and plastic, are replaced by more permanent ones like brick and cement. Once it appears to the local authorities that it will be impossible to remove these inhabitants from the land, a process of struggle and negotiation takes place and the neighborhood is finally provided with minimal access to public services as well as basic assistance in planning.

This process of accessing housing has been common in Nicaragua. In fact, that has been the story of many neighborhoods, such as Pablo Ubeda and Enrique Smith, in District Five in Managua. Squatters created these neighborhoods at the beginning of the Sandinista Revolution in the 1980s. The revolutionary government allowed the settlement and helped to support a minimal urban reorganization, designing the streets, and establishing the necessary limits among houses. Since then, little by little the organized community has been improving these neighborhoods through collective and individual efforts. However, most of the streets in these neighborhoods are still unpaved. They are very dusty during the dry season and often washed out in the rainy season.



*A bathing area and a latrine prior to improvements. Photos by Andrea Nickles*

In 1996 the *Centro de Estudios y Promoción del Habitat* (Habitar), a Nicaraguan housing organization founded by a group of architects committed to working with organized communities started its intervention in these two neighborhoods. They began working on a project with the municipality of Managua to install the water and sewage system. However, although this work represented a huge improvement in the quality of life for the inhabitants of these neighborhoods, Habitar discovered that due to a lack of money, not all the families were able to connect their houses to the public sewage system, and were only able to have a minimal connection to the water system. As a result, many continued using a latrine, usually in very precarious conditions, and had access to running water only in one place in the house. The water source is typically located behind the house, where it is used for washing clothes, dishes and for bathing. Without being connected to the sewage system, the dirty water runs from the backyard to the street, creating significant problems including mosquito infestation and related illnesses.

In 1997, as part of Habitar’s long term commitment with these neighborhoods, it created a small revolving fund for housing improvement with \$10,000 donated by Oxfam Canada. The idea was to provide in-kind loans to people in

these two neighborhoods to be able to improve their living situation. WCCN learned about Habitar in 2003 during the process of research for the housing report written in collaboration with the Center on Housing Rights and Evictions (COHRE) and the Nicaraguan Center on Housing Rights (CENIDH). At the end of 2004, after visiting Habitar with our study tours for a couple of years and learning more about their work, WCCN decided to partner with Habitar to contribute to increase the size of this successful revolving fund, with a primary focus on the improvement of sanitary conditions. Habitar and WCCN called this joint project, “*Proyecto de Mejoramiento de Vivienda*” (PROMEVI), and launched it in early 2005. The goal is that over the next few years all the families in these two neighborhoods will be fully connected to the sewage system.

WCCN decided to partner with Habitar’s revolving fund for the following four reasons: 1) It is transparently administered; 2) It works with a participatory model; 3) It is a successful program with strong social impacts on people in extreme poverty; 4) It has great potential to grow and become self-sustainable; 4) It is part of Habitar’s long term commitment with these two selected neighborhoods.

As of November 2005, WCCN has been able to raise \$6,800 for

PROMEVI. These funds have come from a series of small grants provided by several organizations, such as the First Congregational Church of Evanston, the "New Initiatives Fund" from the Rudolf Steiner Foundation, the Madison Rotary Foundation, the City of Madison, and the Friendship Fund.

So far, PROMEVI has provided two cycles of in-kind loans for sanitary improvement. The first cycle started in March of this year in the Pablo Ubeda neighborhood. Eight families received construction materials for a total cost of \$3,000. The second cycle began in November of this year in the Enrique Smith neighborhood. Twelve families received construction materials with the remaining \$3,800, and additional funds will become available as the funds are paid back.

For WCCN, partnering with Habitar in PROMEVI has been a very gratifying experience. In fact, despite being a very small project in comparison with the NICA Fund, it complements our in-depth involvement in economic



*One of the families participating in the PROMEVI project, with the new washing area and bathroom. Photo by HABITAR*

development in Nicaragua. WCCN values all different models of serving needy communities using credit as a tool to improve their quality of life. At the same time, WCCN values the participation of the community in the

administration, use and recovery of those loans, with the idea that many families will benefit from this unique opportunity of having access to a in-kind loan that includes professional technical assistance.

## **Interview with Ninette Morales- Executive Director of Habitar**

### **Could you tell us about how you got involved in the subject of popular housing?**

As a student I felt a particular inclination to work in the *barrios* and learn from the popular sectors. In my last year at the university I did a practicum in Nindiri, a city near Masaya with a large indigenous population and I learned a lot from their use of space, how they organize the houses and the vegetation, the way that they have open public spaces and create spaces for family life that is functional and pleasant. It is this same amazement and admiration that I feel 30 years later in my professional work in the various *barrios* we work in and I have been able to study.

After leaving the University and beginning my professional work, I felt a distance between what the popular city created, which is the majority of our cities, and the professionals in architecture and urbanism. So a group of colleagues and I founded HABITAR in order to find a way to join the popular sectors and bridge this gap.

### **What is the History of the creation of HABITAR?**

HABITAR was founded as a non-profit association to support the organized inhabitants in the improvement of their environment. During the development we worked together with universities, other social housing organizations, with municipalities and specialized government agencies to create synergies that allow our actions to have a greater impact.

HABITAR works to support community self-determination and the solidarity. We look to improve private spaces (homes) and the public spaces where group identity is created (common houses, preschools, health clinics, etc.) as well as the social infrastructure which is closely related to the quality of habitat (water systems, sewers, streets, etc.) We promote citizen participation in all areas of habitat.

### **What is the importance of a revolving fund such as PROMEVI?**

It is an important support to the peoples efforts in progressive improvement of their environment. For this reason it is very important for us to find a way to adjust to the capacities and dynamics of the people, especially when using scarce resources, like money and technical assistance, so that we know that the people will respond with responsibility and keep the promises that are made.

For HABITAR, this is a way that allows us to accompany the communities in the long term search to overcome their precarious habitat, as a way out of urban poverty.

# Development Bank and Rural Lending *continued from pg. 1*

In this article I will address three main topics. First, I will review the main arguments of those supporting and opposing the creation of a development bank in Nicaragua. Second, I will provide some data showing who is currently providing credit to rural producers in Nicaragua. Lastly, I will mention other options the Nicaraguan Government has to expand rural finances.

## Arguments in favor and against the creation of a development bank

Rural producer associations have been very vocal in their support for the creation of a development bank. This year they have used every opportunity to promote the idea, including a rally in Managua on May 26, when hundreds of producers pressured the government to follow through with the idea<sup>2</sup>. Alvaro Fiallos, the President of the National Union of Agricultural and Cattle Producers (UNAG) has said that, "the needs of the producers are big (...). Our demand, in general terms is around \$835 million dollars for a long term program"<sup>3</sup>. According to Fiallos, there is a trend in Nicaragua to produce only basic grains (corn and beans) which require little capital. However, to produce agricultural products with high yield, intensively, producers need a lot of capital at low interest rates and for long terms, something that is not currently available in Nicaragua<sup>4</sup>.

The creation of a development bank is a topic that brought together Sandinistas and Liberals at the National Assembly and has been used as part of the current confrontation that both parties have with President Bolaños' administration. This unusual interest and consensus among politicians from both the major political parties has created a lot of suspicions in some sectors. For instance, an editorial of newspaper La Prensa stated: "It is just and necessary to think and be worried about when politicians from the Liberal and Sandinista parties talk about creating a state bank. It seems that they want to have more bureaucratic positions and

financial resources to divide among themselves and their cronies"<sup>5</sup>.

Sandinista congressman Walmaro Gutiérrez has been one of the main advocates of the creation of a development bank. According to him, "the objective is to guarantee sustainable funding to the major productive sectors in this country that have not been taken care of"<sup>6</sup>. Gutiérrez has added that, "despite the fact that the bank will have a policy of promotion and strengthening of the agricultural sector, we are not talking of a policy of donating money or promoting an attitude of no payment"<sup>7</sup>. On September 23, Gutiérrez submitted to the National Assembly a draft law on this topic to be discussed and eventually approved this year<sup>8</sup>. However, politicians from the Liberal Party doubted that a consensus on this topic would be reached before December 15, when the National Assembly ends its legislative work for the year<sup>9</sup>.

Members of Parliament from both parties have proposed several options to help to capitalize this new development bank. First, \$10 million dollars that have been kept in reserve by the Nicaraguan Central Bank which came from the sale of the state telephone company ENITEL. Second, fundraise funds from the international community. Third, pooling the portfolio of three current state funds, *Financiera Nicaragüense de Inversiones* (FNI), *Fondo de Crédito*

*Rural* (FCR) and the *Instituto para la Promoción de la Pequeña y Mediana Empresa* (INPYME). Lastly, funds from the national budget. Liberal congressman Wilfredo Navarro has stated that the development bank could have minimum of \$40 million dollar in capital to begin operations<sup>10</sup>.

President Bolaños' government initially backed the idea of creating a development bank, but recently has been less enthusiastic about it. José Navarro, the Minister of Agriculture has been the main and most outspoken supporter of the idea inside the government. According to him, one of the main problems to create a development bank has to do with the fact that international financial institutions are not very enthusiastic about it, considering the potential risk if state bank accept deposits from the public, due to the bad precedents with previous state banks in Nicaragua. As a result, he mentioned that his Ministry was working on a consensual proposal among producers, the government and the National Assembly, that "will be totally acceptable for the International Monetary Fund and the World Bank"<sup>11</sup>.

Weeks later, Minister Navarro told newspapers that the government had decided not to consider a bank but rather a rural financial fund that would provide credit directly to the producers, "with around 20 branches

**Table No. 1: Credit by sector provided by banks and financial institutions in Nicaragua, as of December 31, 2004**

| Concept      | Total number of borrowers | %          | Total amount lent (in dollars) | %          | Average loan size (in dollars) |
|--------------|---------------------------|------------|--------------------------------|------------|--------------------------------|
| Consumption  | 526,794                   | 88.7       | \$299,785,980                  | 26.6       | \$570                          |
| Commercial   | 36,080                    | 6.0        | \$350,859,297                  | 31.0       | \$9,724                        |
| Agriculture  | 6,892                     | 1.1        | \$141,347,153                  | 12.6       | \$20,509                       |
| Livestock    | 1,337                     | 0.2        | \$26,929,808                   | 2.3        | \$20,142                       |
| Industry     | 7,959                     | 1.4        | \$118,988,707                  | 10.6       | \$14,950                       |
| Mortgages    | 4,839                     | 0.8        | \$139,670,973                  | 12.3       | \$28,864                       |
| Others       | 10,048                    | 1.8        | \$52,894,204                   | 4.6        | \$5,264                        |
| <b>TOTAL</b> | <b>593,949</b>            | <b>100</b> | <b>\$1,130,476,122</b>         | <b>100</b> | <b>\$1,903</b>                 |

Source: Based on information from the Superintendencia de Bancos y Otras Instituciones Financieras (SIBOIF).

**Table No. 2: Credit provided for Agriculture and Livestock by banks and financial institution, as of December 31, 2004**

| Institution              | Number of borrowers with loans for agriculture | %          | Amount lent for agriculture | %          | Average size loans for agriculture | Number of borrowers with loans for livestock | %          | Amount lent for livestock loans | %          | Average loan size for livestock |
|--------------------------|--|------------|-----------------------------|------------|------------------------------------|--|------------|---------------------------------|------------|---------------------------------|
| PROCREDIT                | 1,922  | 28.0       | \$3,520,625                 | 2.5        | \$1,832                            | 0  | 0.0        | 0                               | 0.0        | -                               |
| FINDESA                  | 456  | 6.6        | \$1,082,026                 | 0.8        | \$2,373                            | 519  | 38.8       | \$5,340,468                     | 19.8       | \$10,290                        |
| FINARCA                  | 8  | 0.1        | \$320,000                   | 0.2        | \$40,000                           | 0  | 0.0        | 0                               | 0.0        | -                               |
| BANCO UNO                | 427  | 6.2        | \$13,166,400                | 9.3        | \$30,835                           | 4  | 0.3        | \$56,900                        | 0.2        | \$14,225                        |
| BANPRO                   | 574  | 8.3        | \$42,726,534                | 30.2       | \$74,436                           | 84   | 6.2        | \$3,692,967                     | 13.7       | \$43,964                        |
| BANCO DE FINANZAS        | 221  | 3.2        | \$4,851,643                 | 3.4        | \$21,953                           | 27   | 2.0        | \$687,297                       | 2.5        | \$25,455                        |
| BANCO CALEY DAGNALL      | 1,321  | 19.1       | \$18,456,661                | 13.1       | \$13,972                           | 4  | 0.3        | \$449,000                       | 1.6        | \$112,250                       |
| BANCO DE AMERICA CENTRAL | 237  | 3.4        | \$14,098,036                | 10.0       | \$59,485                           | 2  | 0.1        | \$12,300                        | 0.0        | \$6,150                         |
| BANCENTRO                | 1,726  | 25.0       | \$43,125,228                | 30.5       | \$24,986                           | 697  | 52.1       | \$16,690,777                    | 62.0       | \$23,947                        |
| <b>TOTAL</b>             | <b>6,892</b>                                   | <b>100</b> | <b>\$141,347,153</b>        | <b>100</b> | <b>\$20,509</b>                    | <b>1,337</b>                                 | <b>100</b> | <b>\$26,929,808</b>             | <b>100</b> | <b>\$20,142</b>                 |

Source: Based on information from the Superintendencia de Bancos y Otras Instituciones Financieras (SIBOIF).

in all the capitals of departments and in areas of major production, such as Nueva Guinea<sup>12</sup>. However, President Bolaños recently stated: "The international organizations said to me, the day that you have the bad idea of creating a state bank we will cut you credits; you [Nicaraguans] have not learned to deal with credit"<sup>13</sup>.

Nestor Avendaño, one of the most well respected Nicaraguan economists has emphasized the importance of a development bank for the economic growth of any country. However, he added, "the regulation of a development bank should be made without the color of any political party or the government in power"<sup>14</sup>.

### **Who is providing credit to rural producers in Nicaragua?**

Not surprisingly, banks are the main providers of rural credit in terms of number of dollars. As of December 2004, the Nicaraguan regulated financial system had a portfolio of \$168.2 million dollars in agriculture and livestock (\$141.3 million for agriculture and \$26.9 millions for livestock)<sup>15</sup>. As a result, agriculture and livestock represented 14.8% of the total portfolio of banks and financial institutions that year. However, only 8,229 rural producers had access to

those loans (6,892 for agriculture and 1,337 for livestock), meaning that only 1.1% of total borrowers from banks received loans for agriculture and only 0.2% for livestock (see Table No.1). The average loan size for agriculture was \$20,508 dollars and for livestock \$20,142 dollars. (See Table No. 1)

Of the six banks and three other financial institutions in Nicaragua in 2004, two banks concentrated 60.7% of all credit provided for agriculture. Bancentro provided 30.5% and Banpro 30.2%. Credit for agriculture is highly concentrated in the richest segment of the society, considering that the average loan size of Banpro's borrowers was \$74,436 and \$24,986 for Bancentro (see Table No. 2). Credit for livestock is even more concentrated, as three financial institutions provided 95.5% of all the credit available for this sector. Bancentro provided 60%, Findesa 19.8% and Banpro 13.7% (See Table No. 2). The average loan size from those organization was \$23,947 for Bancentro, \$10,290 for Findesa and \$43,964 for Banpro. Credit provided by Nicaraguan financial institutions is highly concentrated in other ways as well; for instance, 77% of total

loans made by the whole financial system were in Managua<sup>16</sup>, and 83.8% of those credits were made in dollars, instead of the local currency<sup>17</sup>.

Microcredit organizations are the main providers of rural credit in terms of number of rural producers served. In fact, as of December 2004, microcredit organizations affiliated with the Nicaraguan Association of Microfinance Institutions (ASOMIF) had a portfolio of \$33 million dollars in agriculture and livestock, serving around thirty seven thousand rural producers. As a result, the average loan size for agriculture and livestock was only \$893 dollars. This means that rural producers represented 15.7% of ASOMIF' members borrowers and those borrowers had 30.5% of ASOMIF's members total portfolio (See Table No. 3).

### **What options does Nicaragua have to improve its rural finances?**

Is the creation of a National Development Bank the best option to improve rural finances in Nicaragua? My answer is: not necessarily. In theory I agree that having a National

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# Community Investing

By Emily Allred  
NICA Fund Manager

WCCN members know a little secret. They know there is a way to address root causes of poverty in a developing country without spending a dime. By investing in community development through the Nicaraguan Credit Alternatives Fund (NICA Fund), many WCCN members are improving the quality of life for thousands of Nicaraguans, and even earning a financial return to couple with their social return.

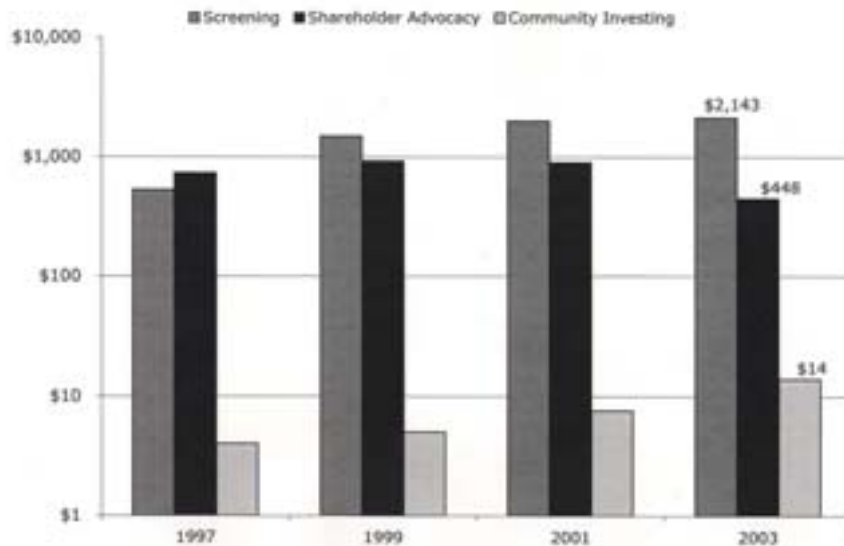
In the world of professional financial management the secret of community investing is getting out. First Affirmative Financial Network and the Social Investment Forum hosted the 16th annual "SRI in the Rockies" Conference this fall with the theme of *"Money, Markets and Sustainability: Bridging the Global Divide"* in recognition of the importance of investments like the NICA Fund in the spectrum of socially responsible investing (SRI) products.

What is socially responsible investing? Amy Domini, author of *Socially Responsible Investing: Making a Difference and Making Money*, and founder of Domini Social Investments, defines SRI as "choosing to integrate goals of justice and sustainability into your everyday investment decisions." Socially responsible investing is an investment process that considers the social and environmental consequences of investments, both positive and negative. Socially responsible investors are aware of what their capital can support, and consciously choose to apply it toward building a better, more just and sustainable economy.

Socially responsible investors exercise their financial influence in three basic ways: Shareholder Advocacy, Screened Investments and Community Investing.

Shareholder Advocacy, also known as shareholder activism, describes investor efforts to submit and vote corporate proxy resolutions as a means

## Socially Responsible Investing (\$ billions)



of influencing company behavior. This strategy has been instrumental in reporting minority-hiring practices and improving environmental practices.

Screened Investing, or Social Screening, describes the inclusion or exclusion of corporate securities in investment portfolios based on social or environmental criteria. Socially concerned investors generally seek to own profitable companies with respectable employee relations, strong records of community involvement, excellent environmental impact policies and practices, respect for human rights around the world, and safe and useful products. Conversely, they often avoid investments in those firms that fall short in these areas.

Community Investing -- investing to provide resources and opportunities for lower income communities -- is the category of SRI where the NICA Fund resides. With \$14 billion in assets as of 2003, community investing is the smallest yet fastest growing segment of Socially Responsible investing. Examine the individuals and communities involved and the reasons are clear.

When Wendy Walter of Portsmouth New Hampshire found herself divorced with two young children, she knew she must find a job that would

support her family yet still allow the time to spend with them. As a gifted potter, she decided to buy a kiln and wheel and start her own business. But she found herself stuck when her insufficient credit record prevented her from accessing the funds she needed for additional equipment and expenses. So she turned to The New Hampshire Community Loan Fund (NHCLF), a financial institution providing low-income New Hampshire residents with the capital necessary to buy affordable housing and finance a small business. Walter took a loan for \$3,000 and launched her business "Voice of Clay" into success. With the profits, she has been able to move the operation from her garage into a commercial space and is now saving to buy a home.

The NHCLF cannot offer opportunities for Wendy and others without capital. A deposit or investment in such an institution is certain to be channeled toward community development. Alternatively, deposits at many traditional banking institutions are subject to values a socially responsible investor may not share. Banks earn money on deposits by lending and investing in a wide range of industries. Your deposit at a traditional bank may end up financing companies that pollute the environment or exploit labor.

Year after year, community investing in the U.S. succeeds as a tool for sustainable economic development as well as an attractive investment. The word is getting out, and investors are becoming aware of the many avenues for participating. Banking with a community development bank or credit union is a simple first step in getting involved. An account with one of these institutions is federally insured and just as safe as one with a traditional institution.

Witnessing the results here in the U.S., investors are becoming increasingly comfortable with sending their money overseas. Like Wendy Walter, most Nicaraguan farmers, artisans and entrepreneurs share in the dilemma of accessing credit. They are too poor to get a loan, but a loan is what they need to ascend from low-income status. Microfinance Institutions (MFI's) have emerged to serve this market using investments in loan funds such as the NICA Fund. This "International Community Investing" allows investor dollars to make even greater impact on a global scale. The high value of the U.S. dollar allows MFI's abroad to serve a greater number of people than their domestic counterparts. For example, \$3,000 is enough to start a small business in Africa employing eight people, but less than a quarter of the same business, employing only one person, here in the U.S.

WCCN members are supporting the growth of International Community Investing as the NICA Fund grows from increased investments. WCCN makes a variety of outreach efforts to educate others on how microfinance plays a vital role in economic development. At this time, WCCN is launching a series of small events where members and their guests may meet and exchange information about issues related to poverty and social justice. This house party forum presents the opportunity to share ideas on ways to contribute to efforts that successfully address these issues. We encourage members to consider hosting a house party and spread the word about investing to make the world more just and sustainable.

## Bank *continued from pg. 7*

Development Bank is something positive, and could be a long term goal for the country. However, creating a nation-wide state financial entity offering low interest rates is perhaps not the best or most effective option to use limited resources to improve the scope of rural finances. That is true especially if you take into account the current size of the Nicaraguan economy, the lack of enough state resources at all levels, the bad precedents of BANADES, and especially the successful experience of microcredit organizations affiliated to ASOMIF.

In the short and mid term, Nicaragua should take advantage of the experience of microcredit organizations in the country. They have not support from the state and sometimes resisting attacks, but in the last ten years were able to build an extensive network of branches all around the country that have been providing credit to small urban and rural producers (Table No. 3). However, to be serious about improving access to credit and other financial services by the Nicaraguan poor, microcredit organizations need a regulatory framework that should also include the possibility of accepting savings.

## References

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- <sup>12</sup>"Banco ahora sera un 'fondo' de fomento. *La Prensa*, May 24, 2005.
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- <sup>15</sup>Banco Central de Nicaragua (2005). *Informe anual 2004*. Managua: BCN. Page 156.
- <sup>16</sup>*Ibid.* Page 157.
- <sup>17</sup>*Ibid.* Page 162.

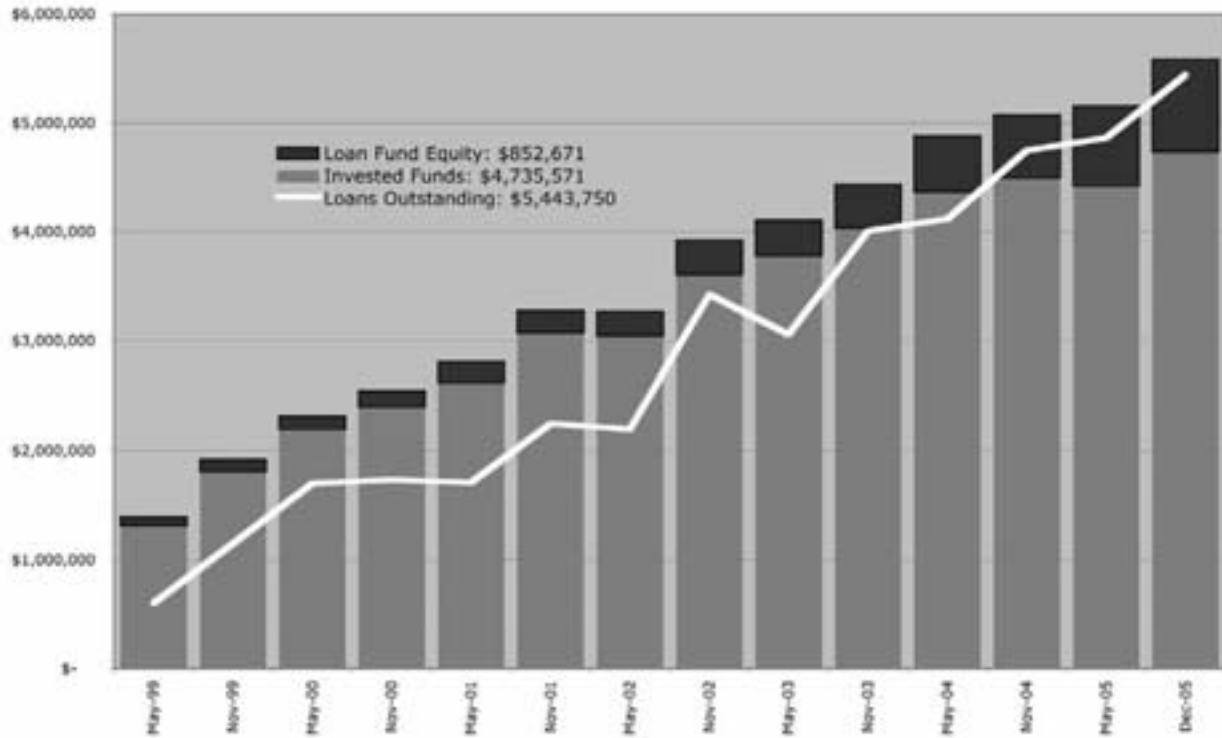
**Table No. 3: Credit provided by microfinance organizations belonging to ASOMIF by sector, as of December 31, 2004**

| Concept                   | Total number of borrowers | %            | Total amount lent (in dollars) | %          | Average loan size |
|---------------------------|---------------------------|--------------|--------------------------------|------------|-------------------|
| Agriculture and livestock | 36,942                    | 15.7         | \$32,994,400                   | 30.5       | \$893             |
| Commerce                  | 113,591                   | 48.2         | \$40,375,400                   | 37.4       | \$355             |
| Services                  | 15,604                    | 6.6          | \$8,614,400                    | 8.0        | \$552             |
| Small industry            | 8,170                     | 3.5          | \$3,496,000                    | 3.2        | \$428             |
| Housing                   | 21,338                    | 9.1          | \$11,106,500                   | 10.3       | \$520             |
| Consumption               | 31,764                    | 13.5         | \$9,268,200                    | 8.6        | \$292             |
| Others                    | 8,085                     | 3.4          | \$2,199,900                    | 2.0        | \$272             |
| <b>TOTAL</b>              | <b>235,494</b>            | <b>100.0</b> | <b>\$108,054,800</b>           | <b>100</b> | <b>\$459</b>      |

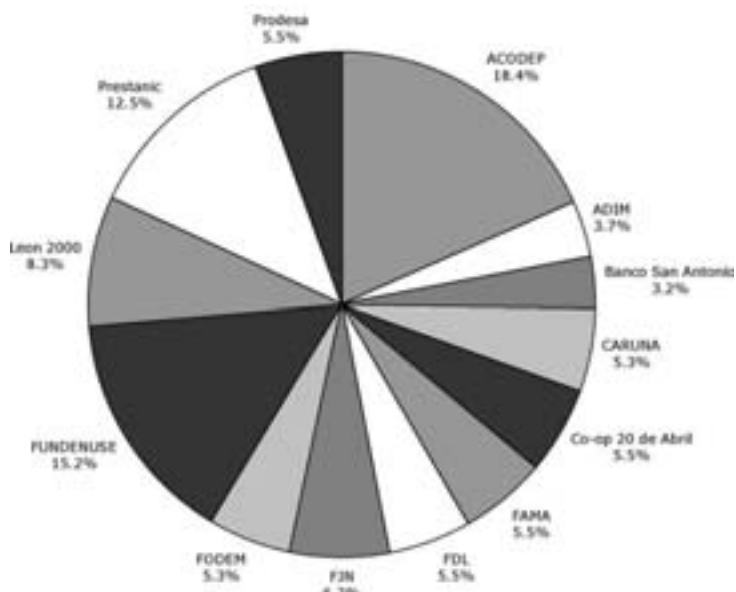
Source: Magazine Microfinanzas, No. 8

# NICA Fund Portfolio as of December 2, 2005

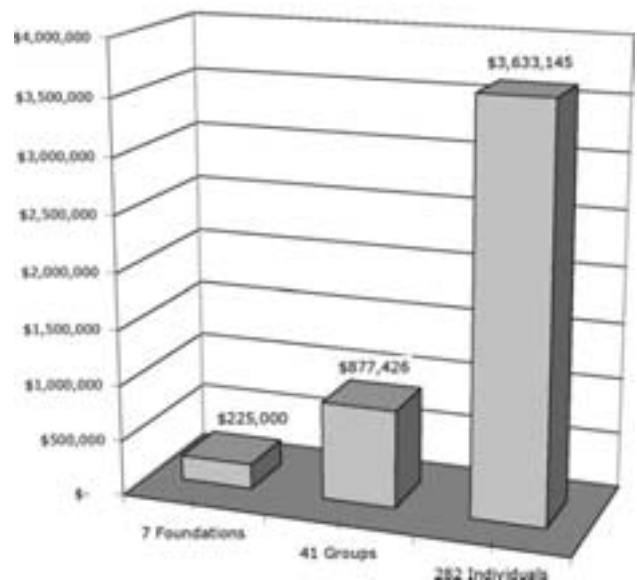
NICA Fund Total Size: \$5,588,242



NICA Fund Portfolio as of 12/2/2005



NICA Fund Investors



# Family Business Benefits Many

**Alvaro Caceres Montenegro**

**borrower of CARUNA**

## Matagalpa

Alvaro has an auto repair business in Matagalpa which he has been running for eight years. This business creates employment for three other families. Alvaro's business comes not so much repairing cars after an accident, as fixing them up so that they look better.

He says that it is difficult for a new business and that CARUNA has given him opportunities and treated him well. He has been taking out loans for five years now and says that his business would be very different without the loans. "I wouldn't be employing others, and these two men here are fathers (pictured). With what they earn here they can send their kids to school." The loans from CARUNA have allowed Alvaro to grow his business substantially over the past few years which provides employment not only for himself but for the other people he employs. The standard of living of each of these



**Alvaro Caceres with his two employees and a friend in his workshop in Matagalpa.** photo by Alisha Steele

families is improved through these loans.

Alvaro uses a Christmas account at CARUNA to save money for purchasing toys and gifts for his children at the holidays each year. He expresses pride in being able to save money and also the pride of a father who provides toys and clothing for his children for Christmas.

Alvaro has plans for using future loans to further improve his business. One of his dreams is to buy a permanent location for his shop, since the current site is rented. Considering Alvaro's good credit history with CARUNA, and the continued availability of these microloans, chances are that he will achieve this dream as well.

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The study tour will also visit some economic projects created by women's organizations that are helping to increase women's income and improve the lives of their families. All these rich experiences have resulted in the fact that the Nicaraguan women's movement is the most creative, active and promising social movement in Nicaragua today.

Please contact WCCN for more information: (608) 257-7230 [wccn@wccnica.org](mailto:wccn@wccnica.org)