

**SOCIO-ECONOMIC IMPACTS OF MICRO-ENTERPRISE CREDIT
IN THE INFORMAL SECTOR OF MANAGUA, NICARAGUA**



Nicaraguan Female Micro-entrepreneur

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(ABSTRACT)

This analysis will characterize the informal sector in Managua, Nicaragua as small-scale units engaged in the production and distribution of goods and services whose primary objective is to generate employment for the participants rather than maximize their profits. Managua's informal sector employs forty-eight percent of the total employed urban population and plays an important role in the development of the country. Historically, informal sector growth has been constrained by the inaccessibility of credit. However in recent years, credit programs that focus on micro-enterprise lending have been established and are significantly stimulating informal sector activities. This paper evaluates the effectiveness of micro-enterprise credit as a tool for promoting socio-economic development for informal-sector participants. Its principal findings are that micro-enterprise credit promotes economic development by generating income and employment, increasing borrower assets, and facilitating expansion of micro-business enterprises. Secondly, micro-enterprise credit promotes social development by empowering females in the home and business, benefits to children, and improving borrowers' personal well being.

TABLE OF CONTENTS

CHAPTER I: INTRODUCTION	1
A. Background	1
B. Reasons for and Significance of the Study	3
C. Relation to Existing Literature	5
D. Evaluation Criteria	10
E. Nature of Analytical Process	11
CHAPTER II: INFORMAL SECTOR PARTICIPANTS	13
A. Demographics	15
B. Type of Business Activity	18
C. Need for Credit	16
CHAPTER III: CREDIT PROGRAMS IN NICARAGUA	17
A. Institutional Characteristics	17
B. Target Group Focus	19
C. Financial Structure	20
CHAPTER IV: ANALYSIS/EVALUATION CRITERIA	24
A. Economic Impacts	24
▪ Sustained or Generated New Employment	
▪ Income Generation	
▪ Increased Personal (Borrower) Assets	
▪ Expansion of Business Enterprise	
B. Social Impacts	26
▪ Improved Personal Well-being	
▪ Improved Family's General Welfare (i.e. Benefits to Children)	
▪ Empowering Females in the Home/Business	

CHAPTER V: CONCLUSIONS AND RECOMMENDATIONS	27
A. CONCLUSIONS	27
B. RECOMMENDATIONS	28
APPENDICES	29
A. QUESTIONNAIRE FOR ADMINISTRATORS	30
B. QUESTIONNAIRE FOR BORROWERS	35
C. NICARAGUA: COUNTRY PROFILE	40
D. BORROWER INTERVIEW SUMMARY	43
REFERENCES	47

CHAPTER I: INTRODUCTION

A. BACKGROUND

Since the International Labor Office (ILO) employment mission to Kenya introduced the concept of the informal sector into the international spectrum in 1972, a number of definitions have been introduced into the literature. I will adopt the generally accepted definition of the informal sector as characterized by small-scale units engaged in the production and distribution of goods and services, whose primary objective is to generate employment for the participants rather than to maximize profits (Lubell, 1991).

As the commercial, industrial and governmental center of the country, Managua has always been the focal point for rural migrant workers seeking employment and better living conditions. However, in the nineties Managua saw large-scale migration unlike any other decade before. J.P. Perez Sainz (1998) provides three possible explanations for this recent trend. The emergence of a sector of new tradable goods, a decline of the formal sector, and the changes that have occurred within informality in terms of the processes which give rise to informal activities, as well as the way they operate and fit into the national economy (Sainz, 1998). Others argue that because the urban labor force cannot absorb this labor, individuals rely on the informal sector as a source for employment (Cantarero, 1988). Managua's informal sector employs forty-eight percent of the total employed urban population and therefore plays an important role in the development of the country (Sainz, 1994). Historically, informal sector growth has been constrained by the inaccessibility of credit. However, in recent years, credit programs that focus on micro-enterprise lending have been established and are significantly stimulating informal sector activities. This paper evaluates socio-economic impacts of micro-enterprise credit for informal sector participants.

DEFINING THE INFORMAL SECTOR

The ILO/PREALC (*Programa Para el Empleo de American Latina y el Caribe*) Studies on the informal sector in Latin America and the Caribbean used two alternative definitions of informal sector activity. The first, based on labor-force status, included the following: domestic servants, casual workers, own account workers, and persons working in enterprises of less than five persons (enterprise heads, white-collar employees, blue-collar

workers, and family workers). The other definition used an income criterion: persons earning less than a certain minimum, usually the legal minimum wage, “on the assumption that low productivity activities typical of the informal sector also generate low incomes” (Lubell, 1991).

A number of other studies, mostly concerned with Latin America, have linked the informal sector with illegality. In *El Otro Sendero*, (1986), DeSoto et al. characterize the informal sector as that which comprises all extralegal economic activities, including both market production and trade as well as direct subsistence production. A third perspective known as the “structuralist” perspective focuses on the structure of relationships between activities regulated and unregulated by the state (Portes and Schaffer, 1992.).

However, for the purpose of this study, I will use the ILO’s definition of the informal sector. The ILO defines informal sector as:

"A way of doing things characterized by: a) ease of entry; b) reliance on indigenous resources; c) family ownership of resources; d) small-scale of operation; e) labor-intensive and adapted technology; f) skills acquired outside the formal school system; and g) unregulated and competitive markets” (Lubell, 21: 1991).

I chose this definition because it adapts well to the characteristics of Managua’s informal sector. Primarily, individuals seek employment in the informal sector because it poses no significant barriers to entry. In addition, a large percentage of informal sector activity in Managua is characterized by its reliance on indigenous resources (*Fundacion para el Apoyo a la Microempresa*, FAMA, 1998). For instance, one of the more popular informal sector activities for females is small food-stalls, called *comedores* or *fritangas*, which depend solely on indigenous skills and resources. Other characteristics of Managua’s informal sector include family ownership, competitive small-scale operations, and employing skills obtained outside the formal school system.

B. REASONS FOR AND SIGNIFICANCE OF THE STUDY

Many reasons prompted me to do this study. As a native of Nicaragua, I am concerned with the course that the country is taking towards prosperity. In my recent visits to Nicaragua, I realized the potential that the informal sector had as an employment generating sector and a tool for poverty alleviation. However, I felt that this potential could only be maximized with the existence of and access to credit. For this reason I chose to study the socio-economic impacts of micro-enterprise credit on informal sector participants.

Micro-enterprise credit has become an increasingly popular development tool for addressing issues of poverty and unemployment. Since its birth in Asia in the early 1980's, it has spread to every corner of the globe (Ghate, 1992). In Bangladesh the “programmatically” success of the micro-credit scheme of Grameen Bank among poor women in Bangladesh became a demonstration of a successful development strategy (Rahman, 1998). It has proven very effective in providing support to street vendors, market vendors, and small-scale home-based businesses. Micro-enterprise credit is based on the premise that small loans made to individuals with little or no collateral can help sustain and develop self-employed initiatives (Berger et al., 1989). A micro-enterprise is a business activity run by individuals or families with less than five workers (Lubell, 1991 and PREALC, 1978). The goods for sale are usually home-produced or purchased and sold in small quantities. Loans as small as fifty dollars (U.S.) can help an individual create a micro-enterprise and generate income. Similarly, loans to already existing micro-enterprises enable those individuals to sustain their business by providing working capital to purchase raw materials. Micro-enterprise credit increases productivity by allowing individuals to purchase equipment that is more efficient as well as achieve economies of scale through wholesale rather than retail purchases (Ghate, 1992).

In terms of its social impacts, micro-enterprise credit has been a very useful strategy for empowering low-income informal sector participants, particularly females (Berger et al., 1989). In many of the developing nations, as is the case in Nicaragua, females are the subjects of discrimination based on religious beliefs and cultural traditions (Berger et al., 1989). Micro-enterprise credit has allowed females to gain access to economic resources, and achieve a higher degree of decision-making power in the home (Karim and Osada, 1998). Moreover, since females tend to spend more time and money in the home than males, micro-enterprise credit has the potential to improve health and education standards for children.

Having conducted interviews and having had first-hand experience with informal sector activities, I have gained a better understanding of the participants, their nature, and the mechanisms of the informal sector. I made two important observations: The first observation is that a significant percentage of informal sector activities in Managua are micro-enterprises (less than five workers). The second observation is that micro-enterprise credit promotes socio-economic development of informal sector participants.

C. RELATION TO EXISTING LITERATURE

Literature on the informal sector can be categorized into several different approaches. However, according to Venessa Cartaya, literature on the informal sector is mainly categorized under one of four main approaches; the structuralist approach, neo-Marxist approach, underground economy approach, and the neo-liberal approach (Cartaya, 1987).

The structuralist approach deals with the informal sector as a labor-force phenomenon. This approach is often identified with the ILO's PREALC. According to this approach, a good share of the poorer urban working population of the developing nations is employed outside of regular formal sector jobs that carry with them access to social security and other fringe benefits (Lubell, 1991). A concern of studies based on this approach, such as PREALC's *Plan de Integracion Nacional 1979-1982* in Colombia, was to identify the working poor, to legitimize informal sector occupations, and to set a framework for macroeconomic policies that would improve the productivity and incomes of informal sector participants (Lubell, 1991).

The neo-Marxist approach emphasizes the exploitation of informal-sector workers by the capitalist producers of the formal sector (Berger et al., 1989). It is based on the premise that the exploitation of laborers of informal sector businesses helps first, to reduce the costs of raw materials and inputs for formal-sector production, and second, to keep formal-sector labor costs lower by providing wage goods to formal-sector workers at a lower cost than the formal sector could itself generate (Moser, 1994). Neo-Marxists visualize the informal sector as a socially and historically determined mode of production subordinated to and subsumed by capitalism (Wilson, 1998).

Chris Gerry (1987) characterizes the neo-Marxist approach to the informal sector as conceiving small entrepreneurs to be petty commodity producers who are actually disguised wagedworkers exploited through such devices as subcontracting. They benefit the capitalist system by both supplying cheap commodities to the workforce employed in the formal sector and by their presence as an industrial reserve army (Gerry, 1987). The neo-Marxist approach is in accord with PREALC's position that the informal sector is constituted by a surplus of labor force unabsorbed by the advanced capitalist sector and is subordinate to the informal sector (Wilson, 1998).

The Underground Economy approach to the informal sector is that the underground economy is the result of pressures of increased competition on an international scale which have

led to the development of a new type of manufacturing based on sub-contracting and piecework (Berger et al., 1989). According to this approach, employers have a greater flexibility in hiring and firing employees, in changing the tasks that workers perform, and in changing the styles and components of their products. Employers are therefore able to respond more rapidly to the quick pace of changing tastes and patterns of consumption on an international scale and, as a result, to compete better in international markets and in the domestic markets in cases where international goods are also in competition with domestic goods (Berger et al, 1989).

The fourth approach, the Neoliberal approach, defines the informal sector in terms of the absence of legal documentation and requirements on the part of the firms that compose the sector (Berger et al., 1989). This perspective is often identified with Hernando deSoto and his view of Lima's (Peru) informal sector. According to DeSoto and others, the formal sector is that sector where firms comply with legal regulations including licensing, minimum wage regulations, and social security payments, and the informal sector is that group of firms that does not observe these legal conventions (DeSoto et al., 1986). Neoliberals view informal-sector entrepreneurs as perfect models of petty-bourgeois capitalists, but they can only succeed if the mercantilist state policies are replaced by a truly laissez-faire capitalist environment (Wilson, 1998). Neo-liberal theories of development emphasize the need to remove the market imperfections caused by government interventions in the form of subsidies and state ownership of companies (Cross, 1998).

Aside from the four approaches described by Cartaya (1987), a number of theories striving to explain the existence of the informal sector have emerged. Among them, modernization theory, dependency theory, and the worldwide systems theory (Wilson, 1998). Modernization theory identifies the informal sector with the "traditional" precapitalist as opposed to modern economic organization (Wilson, 1998). The economy is conceived as dual, with the traditional sector having no linkages with the modern one. Those working in the traditional sector are there mainly because they lack the skills and education to accept factory discipline (Moser, 1994). The traditional sector is also conceptualized as a "peasant system of production" in which a "proto-proletariat" is engaged in self-generated employment (McGee, 1977).

Dependency theory attempts to explain the lack of capitalist development in developing nations as due to historical relations of economic dependence between core capitalist countries

and peripheral ones (Wilson, 1998). Dependency theory activists contend that cities in Latin America are dependent cities, and the “wrongly labeled marginal patterns displayed by some of their residents is due to this dependency” (Castells, 1983).

A third theory that attempts to explain the existence of the informal sector is the world-systems theory. World-systems theorists view the presence of the informal sector as due to current global economic restructuring (Wilson, 1998). They point out that the informal sector is growing also in the core capitalist countries, due to the informal sector’s ability to keep wages down and ensuring a labor force that can be hired in peak periods and fired in slow ones (Portes and Schauffler, 1992).

Initially, informal sector studies in Africa and Asia went beyond the Structuralist or Labor Force approach to study micro-enterprises as a production entity (Lubell, 1991). Most of the earlier Latin American studies used the labor force approach since their main concern was employment generation (Lubell, 1991). Later Latin American studies took a different approach. The labor force approach developed into an examination of the regulated and unregulated status of workers in enterprises of all sizes (Lubell, 1991). One of the more significant studies that considers this approach is *El Otro Sendero* by Hernando deSoto.

The approach that I have taken for this study is a Structuralist approach that deals with the components of the informal sector as micro-enterprises whose dynamic character can be enhanced by support programs such as access to credit and technical assistance. Prior studies on Latin American countries such as the Inter-American Development Bank (IDB) Small Projects Programme (1989), indicate that micro-enterprise credit to informal sector participants is an effective strategy for improving welfare. A 1989 evaluation of micro-enterprise projects funded by the U.S. Agency for International Development covered thirty-eight projects or sub-projects in twenty countries of Asia, Africa, and Latin America (including the PIECES-II and USAID/Senegal Kaolack projects) initiated in the 1970’s and 1980’s (Lubell, 1991). Conclusions of the evaluation were that first, informal sector activity is viable and profitable with many of the participants yielding a return on capital of more than one hundred percent per year. The second conclusion was that the “minimalist” approach, whose aim is only to provide credit and working capital to micro-enterprises, is much more effective than other more complex approaches (Lubell, 1991).

Within the literature on the informal sector, extensive research has been performed on informal credit and micro-enterprise credit programs. Like informal-sector literature, micro-enterprise credit literature reflects both views (Khandker, 1998). Some support micro-enterprise credit on the basis that it alleviates poverty by deriving benefits such as income and employment generation, consumption, assets, net worth, nutrition, contraceptive use, fertility, and children's schooling (Khandker, 1998). Others believe that micro-enterprise credit programs are particularly beneficial to women. Advocates of programs such as Bangladesh's Grameen Bank micro-credit program (Rahman, 1998), argue that women's priority is to invest their earnings on their children, to be followed by their spending on their household necessities. Therefore, lending to women and increasing their earnings bring more qualitative benefits to family welfare than the earnings of men (Rahman, 1998).

Yet still others argue in favor the ability of micro-enterprise credit as a tool for empowering women (Mayoux, 1998). Women who work independently of their husbands are disadvantaged in setting up micro-enterprises by their limited access to capital and to the skills needed for buying and marketing (Wilson, 1998). Supporters of micro-enterprise credit believe that micro-enterprise credit programs empower women by strengthening their economic roles, increasing their ability to contribute to the family's income, helping them establish their identity outside of the family, and giving them experience and self-confidence in the public sphere (Sinha, 1998).

Those against micro-enterprise credit programs argue that micro-enterprise credit programs are not effective tools for poverty alleviation (Reinke, 1998). A potential problem that may hinder the success of a micro-enterprise credit program is "Dropouts" (Karin and Osada, 1998). It is likely that some members of micro-enterprise credit programs will leave the program over time. However, if a large number of members leave the program, that could undermine the success of the program. Dropping out after rising out of poverty or economic graduation means that members would be deprived of other services provided by the program (Karim and Osada, 1998). Dropping out, even after rising out of poverty, ultimately leads to a decline in the number of continuing members in the program, which, in turn, would decrease the amount of credit disbursement and, hence, profit (Karim and Osada, 1998).

Another problem of the micro-enterprise credit literature is that it often ignores the cost of program implementation to indicate whether the derived benefits of the program are worth the

cost (Khandker, 1998). Micro-enterprise credit programs are often subsidized and hence, seen as transfer mechanisms. Even if this is so, micro-enterprise credit programs must be able to transfer resources in a cost-effective way (Khandker, 1998). But, micro-enterprise credit is only one of many instruments for poverty reduction. Broad-based economic growth policies, Food for Work, and targeted wage employment schemes are some of the non-credit instruments that also help reduce poverty (Kandker, 1998). Micro-enterprise credit programs must therefore be evaluated against the performance of alternative instruments for poverty alleviation.

Also, some believe that even if participants do benefit from micro-enterprise credit programs, such programs may hurt others in the society or may achieve benefits less effectively than alternative programs (Khandker, 1998). This raises the issues of externalities, income redistribution, and the cost-effectiveness of alternative strategies.

Others argue that micro-enterprise credit programs are limited in their ability to improve the welfare of female borrowers (Osmani, 1998). They base their argument on the grounds that under the prevailing cultural conditions facing some developing nations, women are still dependent on their husbands in order to make better use of the credit (Osmani, 1998).

Still others point to “mis-targeting” (Matin, 1998) as a potential threat to the effectiveness of micro-enterprise credit programs. Mis-targeting implies including those who, according to some pre-defined criterion, should not be included (Matin, 1998). For instance, the Grameen Bank extends loans to women, but according to a study carried out in a village in the Tangail region of Bangladesh in 1994-95 and in the summer of 1997, men predominantly used these loans and supplied installments for women’s weekly payment in the loan centers (Rahman, 1998). Matin’s study of 354 Grameen Bank borrowers in four villages of Madhupur Thana in Tangail, reported mis-targeting of as high as thirty-percent (Matin, 1998).

In short, literature on the informal sector is categorized into several different approaches. Some of the main approaches mentioned in this study include the structuralist approach, neo-Marxist approach, underground economy approach, and the neo-liberal approach. In addition, a number of theories to explain the existence of the informal sector have emerged. Among them, modernization theory, dependency theory, and the worldwide systems theory. Within the literature on the informal sector, extensive research throughout the world has been dedicated to micro-enterprise credit programs and their effectiveness as a development tool.

D. EVALUATION CRITERIA

As aforementioned, this study examines socio-economic impacts of micro-enterprise credit in Managua's informal sector. Based on my review of the literature, criteria that I will be using in this study to measure socio-economic impacts are as follows:

Economic Impacts: Micro-enterprise credit results in:

- Sustained or Generated New Employment
- Income Generation
- Increased Personal (Borrower) Assets (i.e. Home Improvements)
- Expansion of Business Enterprise (i.e. More Tables and Chairs)

Social Impacts: Micro-enterprise credit results in:

- Improved Personal Well-being (i.e. Sense of Security about the Future)
- Improved Family's General Welfare (i.e. Benefits to Children)
- Empowering Females in the Home/Business (i.e. Decision-making Power)

These criteria derived largely from previous micro-enterprise projects in Latin America supported by the Inter-American Development Bank (IDB) through its Small Projects programme, USAID's PISCES-II Micro-Enterprise Projects (Lubell, 1991), and the Grameen Bank's micro-credit program (Rahman, 1998).

E. NATURE OF ANALYTICAL PROCESS

The data supporting the observations and conclusions of this study are both primary and secondary in nature. This past January, I conducted twenty-two "informal" interviews with credit program borrowers, and three interviews with credit program administrators (see Appendices A and B). All borrowers were classified as informal-sector "working poor" (Sainz, 1998). Borrowers were interviewed to learn about the impacts of micro-enterprise credit on their businesses and households. Questions were both closed and open-ended to obtain as much information as possible. The interviews were designed to gain a better appreciation of how micro-enterprise credit has affected different individuals. Primarily, I wanted to find out how micro-enterprise credit improved the personal well being of different individuals and their family's general welfare. Administrators were interviewed about the objectives and structure of their respective micro-credit programs. Questions again were both closed and open-ended in nature.

I interviewed twenty-two borrowers from all three credit programs (eight clients from *Banco Popular*, ten clients from FAMA, and four clients from MMTD). Sample participants were selected randomly within each program. However, care was taken to ensure that different types of business enterprises were represented in the sample. Interviews with FAMA and *Banco Popular* clients were conducted at the borrower's place of business. Due to time and resource constraints, I chose borrowers with businesses in the same market location (or in the vicinity) to reduce travel time and costs. Furthermore, fifteen of the twenty-two interviewees were female (sixty-eight percent). I chose more females than males for two reasons. I wanted to gain first-hand information on whether micro-enterprise credit had empowered them in their homes and businesses, and how it had benefited their children. In addition, I found through personal experience, that male informal-sector laborers are much more reluctant to give out information to a stranger than are females, especially information having to do with personal finances. The entire interview process was carried out under strict confidentiality.

I have made reference to a number of secondary sources including "Women's Ventures", (Marguerite Berger, 1989), "The Informal Sector in the 1980's and 1990's", (Harold Lubell, 1991), "Perspectives of the Informal Economy", (M. Estellie Smith, 1990), and "Informal Finance", (Prabhu Ghate, 1992). My sources for background information include the World

Bank, Inter-American Development Bank, Banco Central de Nicaragua, U.S. Department of State, U.S. Embassy, *Banco Popular*, FAMA, and MMTD.

The main sources of my secondary data are *Banco Popular*, FAMA, and MMTD. These are three types of organizations that have micro-enterprise credit programs. *Banco Popular* is a state bank that serves small and micro-businesses. The bank's micro-enterprise program (*Programa para la Micro-empresa*) is designed to meet the credit needs of micro-enterprise borrowers who do not have sufficient collateral to borrow through traditional means. FAMA is a subsidiary of ACCION International, a network based in Somerville, Massachusetts. FAMA's goal is to promote development through the extension of credit to informal sector-micro-enterprises. Finally, MMTD is a non-government organization (NGO) that focuses on female social and economic development. Using data from the three credit programs, as well as data gathered from borrowers and micro-credit program administrators, I will determine:

- Institutional and structural characteristics of each credit program
- Target group
- Demographic information
- Type of business activity (i.e. features, characteristics)
- Reason for starting business
- Need for credit
- Economic Impacts (i.e. income & employment generation)
- Social Impacts (i.e. home improvements, impacts on children)

CHAPTER II: INFORMAL SECTOR PARTICIPANTS

A. DEMOGRAPHICS

The gender composition of informal sectors throughout the world varies from one country to another. A 1973 study of Asuncion, Paraguay's informal sector showed that participation in the informal sector was higher for females because of the inclusion of domestic servants (Lubell, 1991). On the other hand, a PREALC analysis of the informal sector in Quito and Guayaquil (Ecuador) showed that sixty-one percent of the urban informal sector participants were male, compared to twenty-nine percent female (PREALC, 1978). In Managua, sixty-one percent of informal sector participants are female, compared to thirty-nine percent male (Banco Central, 1998). The gender composition of borrowers from the three micro-credit programs reflected the same trend. Sixty-nine percent of all borrowers were female and thirty-one percent were male (See Table 6). FAMA's director Victor Telleria credits this trend to two predominant factors. One, "a high percentage of all micro-enterprise businesses are either food stalls, (*comedores o fritangas*), tortilla-making enterprises (*tortilleras*), or mini-markets (*pulperias*) which sell an assortment of items ranging from fruits and vegetables, clothing, artisan work, to toothpaste and cigarettes. These types of activities have traditionally been operated by women." To a lesser extent, Telleria believes that the growing number of single mothers looking for "ways to improve their situations and their children's situations" has also affected this trend (FAMA, 1998).

The age composition of micro-enterprise borrowers from all three programs showed that the majority of borrowers were between the ages of thirty and fifty years of age (seventy-five percent of all borrowers) (Banco Popular, 1998, FAMA, 1998 and MMTD, 1998). The level of schooling also varied among borrowers. About a third attended primary school, less than a third attended secondary school, and less than a third had attended post-secondary schools. The majority of all borrowers were married (sixty-five percent) with dependents. Twenty-five percent were single mothers, and ten percent were single adults without dependents (Banco Popular, 1998, FAMA, 1998, and MMTD, 1998).

TABLE 6: BORROWER DEMOGRAPHICS

	Gender	Age	Education	Legal Status
All Three Programs Combined	69% Female 31% Male	20%-younger than 30 75%-between 30 and 50	33%-primary school < 33%-secondary school < 33% post-secondary school	65% married 10% single adults

Source: Banco Popular, MMTD, FAMA

B. TYPE OF BUSINESS ACTIVITY

Earlier, I presented several definitions of the informal sector and explained the underlying criteria supporting each of them. Generally, the term informal sector refers to activities taking place in markets, streets, and homes, employing little or no capital. Informal sector micro-enterprises are usually family-owned with five or less workers. Furthermore, the goods and services provided by informal sector micro-enterprises are usually home-produced and employ indigenous skills acquired outside of the formal school system (Lubell, 1991). Data from the three credit programs, along with the interviews, showed that the type of businesses found in Managua's informal sector fit this description.

I pointed out earlier that females are the dominant gender in Managua's informal sector and also among micro-enterprise borrowers. I also pointed out that one of the main reasons for this is the type of business activities found in Managua's informal sector. Forty-nine percent of borrowers had commercial micro-enterprises such as mini-markets (*pulperias*). Twenty-five percent of the businesses were in the service sector, which is comprised mainly of food-stalls (*fritangas*), and tortilla making enterprises (*tortilleras*). The remaining twenty-six percent were composed of a variety of manufacturing business activities ranging from tire vulcanization to clothing and leather products.

TABLE 7: TYPE OF BUSINESS ACTIVITY

	Commercial Sector	Service Sector	Manufacturing
Micro-enterprise borrowers (3 programs)	Mini-markets (<i>pulperias</i>) 49%	Food Stalls (<i>fritangas</i>) 25%	Different Manufacturing Activities * 26%

Source: Banco Popular, MMTD, FAMA

* tire vulcanization, clothing and leather manufacturing

C. NEED FOR CREDIT

According to those individuals interviewed, there were two main reasons for borrowing. The first reason was to start a new business (fifty-five percent). Most of the micro-entrepreneurs were either unemployed or under-employed prior to their first loan (seventy-three percent). With little to no capital to start a business, their best option was borrowing from one of the micro-enterprise credit programs. One woman added that her husband had left her with two children and so she had to find a way to feed herself and her children.

“I thought that the only way to earn and still watch my children would be to work as a tortilla-maker (*tortillera*). And, because that is something I know how to do, well, I decided to take a chance.”

The second reason was to sustain an already existing source of income (twenty-seven percent). Individuals stressed the importance of having access to credit because it allowed them to continue their enterprises, and make improvements. For instance, in Managua, a very typical informal sector activity is making candy or *cajeta*. One woman in the candy-making business (*cajetera*), decided to borrow because she was almost bankrupt and without the loan, she would have been unable to pay the rent for her stall at the market. Another individual borrowed so that she could buy more chairs and tables for her *fritanga* business.

The majority of interviewees used their loans for working capital only (sixty-four percent). The other thirty-six percent used their loans for both working capital as well as for improvements and reinvestment in their enterprises. A reason for this is because informal sector micro-enterprises, for the most part, are not sufficiently profitable to allow for savings and investment. Most often than not, the income generated from the business goes to cover costs, purchase new materials, and feed the family. In general, micro-enterprise credit greatly assisted the majority of borrowers. According to FAMA director Victor Telleria, at least a third of FAMA micro-entrepreneurs would have gone under without access to credit, and those surviving would not have been as profitable (FAMA, 1998).

CHAPTER III: CREDIT PROGRAMS IN NICARAGUA

A. INSTITUTIONAL CHARACTERISTICS OF CREDIT PROGRAMS IN NICARAGUA

There are a number of types of institutions being implemented around the world to provide credit to informal sector micro-enterprises (Ghate, 1992). These include commercial banks, NGO's, and micro-enterprise credit networks. Most of these institutions are affiliated with either local or international agencies and can be governmental or non-governmental. The main objective of micro-enterprise credit is to provide credit assistance to those individuals who cannot access it through traditional means. In Managua, there are various types of micro-credit institutions. For this study, I chose three institutions representing three types of micro-credit programs available to informal sector participants.

I. Commercial Banks (*Banco Popular*)

Banco Popular is a state bank that serves small and micro-enterprises. The bank's *Programa de Microempresa* or Micro-enterprise Program is designed to meet the credit needs of informal sector micro-entrepreneurs that do not have the collateral to borrow through traditional means. *Banco Popular's* program has three main components: a) credit to commercial micro-enterprises; b) credit to service micro-enterprises; c) credit to the poorest of the poor for both employment as well as meeting basic human needs. *Banco Popular's* program began as a pilot program in 1992 with the aid of the Holland Mission, a Dutch government agency. The program however is funded by *Banco Popular*.

II. Non-Governmental Organizations (NGO's)

The *Movimiento de Mujeres Trabajadoras y Desempleadas* (MMTD) is a micro-credit program that focuses on the social and economic development of females. This NGO'S main objective is to provide credit for female micro-entrepreneurs, reduce gender discrimination in the work place, and improve the general welfare of females within the community. MMTD was also a pilot program. It began in 1996 through funding provided by Co-Development Canada, a Canadian NGO.

III. Micro-enterprise Credit Networks

Fundacion para el Apoyo a la Microempresa (FAMA) is part of a Credit Network created by ACCION International. ACCION International is a US-based network that provides the structure for programs like FAMA. FAMA's main objective is to promote socio-economic development by providing credit to micro-enterprises in the informal sector. Although FAMA is part of the ACCION International's network, it is owned and operated by a Nicaraguan-based group.

TABLE 1: INSTITUTIONAL CHARACTERISTICS OF MICRO-ENTERPRISE CREDIT PROGRAMS IN MANAGUA

	Banco Popular	MMTD	FAMA
Date Program Began	1990	1996	1992
Type of Institution	Commercial Bank	NGO	Credit Network
Main Objective	Micro-enterprise Development	Female Socio-Economic Development	Micro-enterprise Development
Affiliation (If Any)	Dutch Government	Canadian NGO	ACCION International

Source: Banco Popular, MMTD, FAMA

The MMTD is a regional program, while FAMA and *Banco Popular* cover the entire country. All three programs target the micro-enterprise informal sector participants. MMTD, however, focuses on service sector lending rather than commercial or industrial sector lending. This is because service sector (primarily food vendors) enterprises are dominated by females, as opposed to the commercial and industrial sector enterprises, which are much more male-oriented.

B. TARGET GROUP FOCUS

Banco Popular and FAMA cover the informal sector at the national level (Banco Popular, 1998 and FAMA, 1998). MMTD on the other hand focuses exclusively on Managua (MMTD, 1998). *Banco Popular* and MMTD's clients live in urban areas while FAMA's clients are both from rural and urban areas (see table 2). As aforementioned, MMTD focuses on the service sector due to its high concentration of female entrepreneurs. *Banco Popular* and FAMA target the industrial and commercial sectors as well as the service sector. Consequently, *Banco Popular* and FAMA's clients are male and female while MMTD clients are only female (Banco Popular, 1998, FAMA, 1998, and MMTD, 1998).

All three programs are concerned with the socio-economic development of their clients as their main objective. Additionally though, each program has a special focus strategy. *Banco Popular's* strategy is to develop new markets and sustain existing micro-enterprises in the informal sector (Banco Popular, 1998). FAMA is concerned with reaching the poorest of the poor, while MMTD again, focuses on improving the welfare of females and their dependents (FAMA, 1998). The size of operations varies significantly between credit programs. MMTD is the smallest of the three programs with less than one hundred clients (MMTD, 1998). FAMA and *Banco Popular* have much larger programs with four thousand and 11,000 thousand clients respectively (Banco Popular, 1998 and FAMA, 1998). *Banco popular* has twenty-five branches spread across the country (Banco Popular, 1998). FAMA is also spread out nationally with fourteen branches located throughout Nicaragua (FAMA, 1998).

TABLE 2: TARGET GROUP FOCUS

	Banco Popular	MMTD	FAMA
Urban Clients	100%	100%	95%
Rural Clients	0%	0%	5%
Female Clients	80%	100%	61%
Male Clients	20%	0%	39%

Source: Banco Popular, MMTD, FAMA

C. FINANCIAL STRUCTURE

A very important characteristic of micro-enterprise credit as a development tool is that it has the potential to be both financially profitable to lenders as well as financially self-supporting (Ghate, 1992). Initial funding usually comes from international organizations or from the private sector. In the case of FAMA, initial funding came from ACCION International as well as from the private sector. Once the initial capital is established, most of the operation costs are covered through service and interest charges on loans. With the exception of MMTD, the other two credit programs consider themselves financially self-sufficient (Banco Popular, 1998 and FAMA, 1998).

Interest rates between programs fluctuate slightly between two and five percent on-balance. (See table 3). *Banco Popular* charges a rate of two to three percent on-balance (Banco Popular, 1998). FAMA charges a three percent on-balance rate to those clients who attend the training course and five percent to those clients who do not (FAMA, 1998). According to FAMA Director Victor Manuel Telleria, this lending strategy “creates an incentive for lendees to attend our training course, thus reducing our risk as a result of having better educated clients.” MMTD charges a five percent flat one-time only rate that makes MMTD’s rates the lowest of the three programs (MMTD, 1998).

Another important characteristic of micro-enterprise credit programs is that they require little or no collateral in order to obtain a loan (FAMA, 1998). This “flexibility”, according to FAMA director Victor Telleria, “makes micro-enterprise credit programs more effective development tools because they are accessible to the lowest-income groups of the population who for the most part, possess little in the way of collateral.” The most common forms of collateral required by the three credit programs discussed in this study include jewelry, equipment, or machinery. For larger loans, land may be required as collateral (Banco Popular, 1998, FAMA, 1998 and MMTD, 1998).

TABLE 3: LOAN STRUCTURE

	Banco Popular	MMTD	FAMA
Total Capital Pool	Not Available	\$20,000 (U.S.)*	\$3 Million (U.S.)
Funding Sources	Public Deposits and Micro-enterprise credit client deposits	Canadian NGO	Private Sector and Austrian and U.S. NGO's
Current Loan Portfolio	\$4.2 Million (U.S.)	\$15,000 (U.S.)*	\$1.95 Million (U.S.)
Number of Clients	7,000	100	11,000
Borrowing Interest Rate	2-5% on-balance	5% one-time only rate	3-5% on-balance
Service Charge	4%	None	1%
Collateral Required	None	None	None

Source: Banco Popular, FAMA, MMTD

*Estimate

The amount of the loan varies depending on the borrower's need and their capacity to pay. *Banco Popular* has a minimum loan amount of one thousand *Cordobas* (approximately ninety-one dollars U.S.) and FAMA has an initial loan minimum of five hundred *Cordobas* (approx. forty-six dollars U.S.) MMTD has no minimum loan amount. Similarly, each program also establishes a maximum loan amount for its borrowers. *Banco Popular* has a maximum loan ceiling of one hundred thousand *Cordobas* (approximately nine thousand, one hundred forty-one dollars U.S.). FAMA and MMTD have much lower maximum loan ceilings of thirty-five thousand *Cordobas* (approximately three thousand, two hundred dollars U.S.) and four thousand, five hundred *Cordobas* (approximately four hundred eleven dollars U.S.) respectively. Repayment terms are also very flexible. Borrowers can chose to pay interest and capital monthly, bi-monthly or weekly.

TABLE 4: LOAN TERMS

	Banco Popular	MMTD	FAMA
Min. Loan Amount	1,000*	None	500*
Average Length of Loan	Not Available		
Max. Loan Amount	100,000*	4,500*	35,000*
Repayment Terms	Monthly Bi-monthly Weekly	Monthly Bi-monthly Weekly	Monthly Bi-monthly Weekly
Average Loan	Not Available	Not Available	\$398 (U.S.)

Source: Banco Popular, MMTD, FAMA

*All figures in local currency [exchange rate: 10.94 Cordobas to one dollar (U.S.), 1998]

One of the few serious problems faced by micro-enterprise credit programs in Nicaragua is loan repayment. During the Sandinista years (1979-1990), the government issued loans to cooperatives rather than to individuals (U.S. Embassy, 1998). Since these loans were issued by the government, and the government owned the land used by these cooperatives, individuals working in the cooperatives considered these loans to be government grants that did not have to be repaid (FAMA, 1998). Because the Sandinista government did not enforce re-payment, individuals came to believe that loans did not have to be repaid.

For this reason, micro-enterprise credit programs are placing great emphasis on teaching their clients that loans do have to be repaid. As mentioned earlier, FAMA charges a lower interest rate to those individuals who attend the borrower information course. *Banco Popular* and MMTD have a policy of visiting their clients at their place of business periodically, to remind them of their payments. These tactics have resulted in very high repayment rates for all three credit programs. *Banco Popular* has a repayment rate of ninety-five percent; FAMA has a repayment rate of ninety-six percent; and MMTD has a repayment rate of ninety-two percent (See Table 5). In case of the first missed payment, all three programs have a policy of visiting their clients at their place of business to find out the reasons why the payment was not made. Charges for late payments are minimal. *Banco Popular* charges a two percent monthly on-balance late fee. FAMA has a higher penalty at five percent on-balance late fee. MMTD does not charge late fees. In case of extenuating circumstances such as illness or bad

weather, all three credit programs are flexible and will arrange with the client as to when the payment can be made. For second and third missed payments, the programs are much stricter, generally removing the borrower’s assets in place of payment and ending the contract with the borrower.

TABLE 5: REPAYMENT TERMS

	Banco Popular	MMTD	FAMA
Late Payment Fee	2% monthly on balance	None	5% monthly on balance
Rate of Final Repayment	95%	92%	96%

Source: Banco Popular, MMTD, FAMA

CHAPTER IV: ANALYSIS/ EVALUATION CRITERIA

A. ECONOMIC IMPACTS

Eighty-six percent of all borrowers interviewed (n = 22) had benefited from an increase in income since borrowing (See Table 8). The size of the increase in income varied depending on the size of the operation and the amount of the loan. In terms of employment creation, thirty-six percent of those interviewed had hired labor since receiving their loan. Although, for the most part the additional labor usually was provided by a spouse or children, it is still an indication that the business was earning enough to pay additional labor. In addition to generating new employment, micro-enterprise credit also helped to sustain already existing employment (See Appendix D). As aforementioned, one-third of FAMA micro-enterprises would have gone under without access to credit.

Micro-enterprise credit had a significant effect on both business and personal assets. Sixty-four percent of those interviewed said that they had more assets now than prior to borrowing. These assets ranged from items such as new appliances to motorbikes and small cars (See Table 8). Additionally, forty-five percent of interviewees had made some type of home improvement since borrowing.

Finally, micro-enterprise credit also helped individuals in expanding their business enterprise. Twenty-seven percent of interviewees reported that their clientele had increased since borrowing. In addition, some individuals stated that borrowing had allowed them to purchase products at wholesale prices rather than retail, thus reducing transaction costs and increasing profits.

TABLE 8: ECONOMIC IMPACTS

	Income Generation	Sustained or Generated New Employment	Business Expansion	Borrower Assets
22 Individuals Interviewed from all three programs	86% reported an increase in income	36% hired new labor since borrowing	27% reported increase in clientele	64% reported an increase in business/ personal assets

B. SOCIAL IMPACTS

An important impact of micro-enterprise credit was in the creation of a sense of well-being among those individuals interviewed. Sixty-four percent of those interviewed reported feeling more secure about the future as a result of having access to micro-enterprise credit (See Table 9). Economically, this sense of security came as a result of a more stable source of income and access to more credit if needed. And personally, from knowing that they could now provide for themselves and their families.

Greater income security also enabled individuals to plan for the future. Informal sector micro-entrepreneurs for the most part live day to day because of the risk and uncertainty that is involved in informal-sector business ventures. However, with access to micro-enterprise credit, individuals can plan ahead economically, as in the creation of a new business or expansion of already existing business, or personally in the way of home improvements or saving for their children’s education.

Another important impact of micro-enterprise credit was how it improved the borrower family’s general welfare, primarily how it benefited the children. Seventy-three percent of those individuals with children said that their children had benefited since borrowing. For the poorest of the poor, this meant that the children would at least have food every day. Those better off individuals were able to improve their diet (more meats rather than just rice and beans) and purchase clothing and medicine for themselves and their children.

Finally, access to micro-enterprise credit empowered females both the home and business. Sixty-seven percent of the females interviewed stated that their decision-making power both at work and at home, had improved since borrowing.

TABLE 9: SOCIAL IMPACTS

	Well-being	General Welfare- Benefits to Children	Empowered Females
22 Individuals Interviewed from all three programs	64% felt much more secure about the future	73% of those individuals with children reported benefits	67% of females felt more empowered

CHAPTER V: CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

This study indicated that micro-enterprise credit programs in Managua, Nicaragua promote socio-economic development. However, these conclusions are derived from a small sample (n=22) and therefore, require further study to be considered proper indicators of the informal sector of Managua.

A large percentage of micro-credit borrowers generated income and employment, experienced an increase in assets, and expanded their business with loan capital obtained from one of the three micro-credit programs observed in this study. The majority of interviewees felt better about their future as a result of having access to credit, reported that micro-enterprise credit had significantly benefited their children, and, most female borrowers felt that the loans had improved their decision-making power at the home and business.

Despite the benefits and positive impacts, micro-credit programs in Managua also have limitations. Micro-enterprise credit programs allow many informal sector individuals, who would otherwise be unable, to start or continue operating businesses. Consequently, for some individuals, the added competition has resulted in a decrease in profits. One female interviewee mentioned that even though she had expanded her *comedor*, her profits had actually decreased as a result of having to compete for customers with another *comedor* across the street. Some borrowers reported that the size of the loans was too small to have a significant impact on the business. One man commented:

“The loan was sufficient for maintaining us, but in order to grow, you need more money, and unless FAMA lets us borrow more, we cannot (grow)”

Another drawback of micro-enterprise credit programs is borrowers tend to hire their children as new labor in order to meet the higher demand. Therefore children are required to spend more of their time working and less time in school. This could outweigh the positive welfare gains to children from micro-enterprise credit.

B. RECOMMENDATIONS

In order to maximize their socio-economic development potential, micro-enterprise credit programs should promote partnerships between micro-entrepreneurs. This will reduce the effects of competition, increase the potential for business expansion and higher profits, and improve relations between market participants. Micro-enterprise credit programs should make certain that their programs are accessible to the poorest of the poor. Thus, maintain the lowest possible interest rates and service charges so that these individuals are able to access micro-enterprise credit.

Additionally, micro-enterprise credit programs should continue to promote female socio-economic development through educational seminars that teach better business and home management strategies. Micro-enterprise credit programs should also discourage the hiring of children to work in the business and emphasize the importance of education.

Finally, there is the issue of social identity. Through the interviewing process and by observing informal sector micro-entrepreneurs, it appeared to me in general that these individuals see themselves as members of a subsistence class, rather than as owners of their means of production. This sentiment might stem from the notion that often, informal sector individuals' identify themselves more in terms of their work than in terms of the enterprise in which they are engaged (Sainz, 1998). Therefore, it is important that micro-enterprise credit programs make borrowers aware that micro-enterprises, and the informal sector in general, are viable components of the economy and of society as a whole.

A larger sample survey, on the order of three hundred to one thousand participants, is recommended to substantiate the claims in this study.

APPENDICES

**APPENDIX A: QUESTIONARIO PARA ADMINISTRADORES DE PROGRAMAS DE CREDITO PARA
MICRO-EMPRESARIOS**

1. Cuando comenzo el programa de credito?

2. Quien o cuales organismos comenzaron el programa y porque?

3. Cuales son los objetivos principales de el programa?

4. Tiene el programa un foco social (ejemplo mujeres, personas mas empobrecidas, o desarrollo de la micro-empresa en general)?

5. Que porcentaje de sus clientes viven en areas:

Urbanas_____ Rurales_____

6. Como esta estructurado el programa de prestamo?

Capital disponible para prestar?

Fuentes de Capital?

7. Aproximadamente cuantos clientes tiene el programa?

8. A que tasa de interes presta el programa?

9. Hay otros costos (costos de servicio) necesarios para solicitar un prestamo?

10. Que tipo de colateral es requerido del cliente para solicitar un prestamo?

11. Hay algun limite de prestamo?

Prestamo Maximo_____ Prestamo Minimo_____

12. Los intereses de prestamo se pagan:

Mensual_____

Otro tipo de estructura de pago (describa)_____

13. Que pasa si el cliente no paga el interes de su prestamo a tiempo?

14. Que porcentaje de sus clientes no pagan sus prestamos?

15. Que porcentaje de sus clientes son:

Mujeres_____ Hombres_____

16. Que porcentaje de sus clientes son:

Menores de 30 años_____ Entre 30 y 50 años_____

Majores de 50 años_____

17. Cual es el nivel de educacion de sus clientes (porcentajes):

Primaria_____ Secundaria_____ Pos-secundaria_____

18. Que porcentaje de sus clientes pertenecen a el:

Sector Comercial_____ Sector de Servicio_____ Sector industrial_____

19. Que tipo de micro-empresas son mas representativas de cada sector (ejemplo fritangas, tortilleras, vulcanization de llantas etc..)?

References for surveys:

DeFranco, Silvo. Sobrevivencia y Espiritu Empresarial: El Sector Informal en Managua 1977-1978. Fondo Editorial, Banco Central de Nicaragua; 1983.

Dellino, Domenick J. Survival Strategies for a Rapidly Changing Mixed Economy: The Resilience of Managua's Informal Sector. University of Florida; 1995.

Lubell, Harold. The Informal Sector in the 1980's and 1990's. Paris: Development Center of the OECD; 1991.

APPENDIX A: QUESTIONNAIRE FOR MICRO-ENTERPRISE CREDIT PROGRAM ADMINISTRATORS

1. When did your program begin?
2. What type of organisms started this program and why?
3. What are the main goals and objectives for the program?
4. Does the program have a specific social focus (i.e. women, poorest of the poor, micro-enterprise development in general)?
5. What percentage of your clients live in:
Urban Areas _____ Rural Areas _____
6. How is the credit program structured?
Disposable capital for lending?
Sources of Capital?
7. Approximately how many clients does the program have?
8. What is the lending interest rate for your program?
9. Are there other costs (service costs) that are necessary in order to solicit a loan?
10. What type of collateral is required of the client to solicit a loan?
11. Do you have a limit on loans?
Maximum Limit _____ Minimum Limit _____
12. Interest rates on loans are paid:

- Monthly_____ Other
(describe)_____
13. What happens if the client is late on his interest payment?
14. What percentages of your clients do not pay back their loans?
15. What percentage of your clients are:
Women_____ Men_____
16. What percentage of your clients are:
Younger than 30_____ Between 30 and 50_____
Older than 50_____
17. What is the educational level of your clients (percentages)?
Primary school_____ Secondary School_____ Post-secondary_____
18. What percentage of your clients are involved in business activities in the:
Commercial Sector_____ Service Sector_____ Industrial Sector_____
19. What type of micro-enterprises is most representative of each sector (i.e. food-stalls, tortilla-making enterprises, tire vulcanization etc...)?

**APPENDIX B: QUESTIONARIO PARA BENEFICIARIOS DE LOS PROGRAMAS
DE CREDITO PARA LA MICRO-EMPRESA**

1. Porque razon (razones) decidio usted solicitar un prestamo?
2. Que tipo de bienes uso usted para colateral?
3. En que forma uso el dinero del prestamo? (ejemplo capital de trabajo, materiales, gastos personales)
4. Cada cuanto paga intereses con respecto a su prestamo?
5. Esta usted al día con su prestamo o ha tenido alguna vez problemas pagando a tiempo?
6. Si ha tenido problemas pagando, que tipo de medidas o que sucedio a causa de el no pagar a tiempo?
7. Que tipo de negocio tiene usted?
8. Cual o cuales fue la razon por haber comenzado su negocio?
9. Comenzo el negocio con la ayuda de credito o tenia el negocio antes de haber prestado?
10. Cree usted que sin acceso al prestamo pudiera haber comenzado su negocio o todavia tuviera su negocio?
11. Donde esta su negocio?
12. Trabaja solo (sola) o con alguien mas?
13. Cuantos empleados trabajan en su negocio (incluyendo a usted)?
14. Quienes son estos otros empleados?

15. Ha contratado o empleado mas gente para el negocio desde haber prestado?

16. Compra usted materiales o productos a por mayor o por menor?

17. Ha cambiado su forma de comprar a causa del prestamo?

18. Ha aumentado su ingreso desde haber prestado?

19. Ha expandido su negocio desde haber prestado?

En que forma?

20. A hecho algun tipo de mejoras para su negocio o su casa desde haber prestado?

Ejemplo?

21. Es usted casado (a) o soltero?

22. Quien se encarga de tomar decisiones relacionadas con el negocio?

Usted _____ Esposo (a) _____ Otro _____

23. A cambiado esto desde haber prestado?

24. Tiene hijos?

25. Cree usted que el prestamo ha resultado en beneficios para sus hijos?

Si _____ No _____

En que forma (ejemplos)?

26. Se siente usted mas o menos seguro(a) con respecto a su situacion economica ahora en comparacion a antes de haber prestado?

Si_____ No_____

Porque?

27. Se siente usted mas o menos seguro(a) del su futuro y el de su familia desde haber prestado?

Si_____ No_____

Porque?

28. Que edad tiene usted?

29. Cual es su nivel educativo?

Primaria_____ Secundaria_____ Pos-secundaria_____

APPENDIX B: QUESTIONNAIRE FOR MICRO-ENTERPRISE CREDIT PROGRAM BORROWERS

1. What were your reasons for borrowing?
2. What did you use as means of collateral in order to get the loan?
3. How did you use the money from the loan (i.e. working capital, materials, personal expenses)?
4. How often do you pay interest on your loan?
5. Are you on time with your loan payments or have you ever had difficulty making a payment?
6. If so, what action did the lender take as a result of your late payment?
7. What were the main reasons for starting your business?
8. Did you start your business with the help of the loan or did you have the business prior to?
9. Do you believe that without the loan, you would have been able to start your business or still be operating?
10. Do you work alone in your business?
11. How many employees work in your business?
12. Who are these employees?
13. Have you hired new employees since borrowing?
14. Do you buy materials or products at whole sale prices or at retail?
15. Has this changed as a result of the loan?
16. Has your income increased since borrowing?
17. Has your business expanded (grown) since borrowing?

In what ways?
18. Have you made any improvement to your business or home since borrowing?
19. Are you single or married?

20. Who makes the decisions regarding the business?

You_____ Spouse_____ Other_____

21. Has this changed since the loan?

22. Do you have children?

23. Do you believe that the loan has benefited to your children?

In what ways?

24. Do you feel more or less secure about your economic situation now in relation to prior to having borrowed?

Yes_____ No_____

Why?

25. Do you feel more or less secure about the future now in relation to prior to having borrowed?

Yes_____ No_____

26. How old are you?

28. What is your level of schooling?

Primary school_____ Secondary school_____ Post-
secondary_____

APPENDIX C: NICARAGUA COUNTRY PROFILE

FACTS AND FIGURES

- Area: 130,688 sq. km. (50,446 sq. mi.); slightly larger than New York State.
- Cities: Capital--*Managua* (pop. 1 million). Other cities--*Leon, Granada, Jinotega, Matagalpa, Chinandega, Masaya*.
- Terrain: Extensive Atlantic coastal plains rising to central interior mountains; narrow Pacific coastal plain interrupted by volcanoes.
- Climate: Tropical in lowlands, cooler in highlands.
- Nationality: Noun and adjective--Nicaraguan(s).
- Population: 4.48 million.
- Annual growth rate (1995): 2.9. Density: 33 per sq. km.
- Ethnic groups: Mestizo (mixed European and indigenous) 69%, white 17%, black (Jamaican origin) 9%, indigenous 5%.
- Religion: Roman Catholic 85%.
- Languages: Spanish (official), English and indigenous languages on Caribbean coast.
- Education: Years compulsory--none enforced (28% 1st graders eventually finish 6th grade). Literacy--75%.
- Health: Life expectancy--62 yrs. Infant mortality rate--50/1,000.
- Work force (1996): 1.7 million. Unemployed--16%. Underemployed--36%.

GOVERNMENT

- Type: Republic.
- Independence: 1821.
- Constitution: The 1995 reforms to the 1987 Sandinista-era Constitution provide for a more even distribution of power among the four branches of government.
- Branches: Executive--president and vice president. Legislative--National Assembly (unicameral). Judicial--Supreme Court; subordinate appeals, district and local
- Courts; separate labor and administrative tribunals. Electoral--Supreme Electoral Council, responsible for organizing and holding elections.
- Administrative subdivisions: 15 departments and two autonomous regions on the Atlantic coast; 145 municipalities.
- Major political parties: Liberal Alliance (AL), Sandinista National Liberation Front (FSLN).
- Suffrage: Universal at 16.

ECONOMIC DATA

- GDP (1996): \$2.3 billion.
- Annual growth rate (1997): 5.0%.
- Per capita GDP: \$452.
- Inflation rate: 12%.
- Natural resources: Arable land, livestock, fisheries, gold, timber.
- Agriculture (35% of GDP): Products--corn, coffee, sugar, meat, rice, beans, bananas.
- Industry (20% of GDP): Types--processed food, beverages, textiles, petroleum, and metal products.
- Services (45% of GDP): Types--commerce, construction, government, banking, transportation, and energy.
- Trade (1996): Exports--\$671 million (FOB): coffee, seafood, beef, sugar, industrial goods, gold, bananas, sesame. Markets--U.S. 43%, European Union 33%,
- Central American Common Market (CACM) 17%, Mexico 2%. Imports--\$1,024 million (FOB): petroleum, agricultural supplies, manufactured goods.
- Suppliers--U.S. 32%, CACM 21%, Venezuela 11%, European Union 9%.
- Exchange rate (1997): Nicaraguan Cordobas 9.470=U.S. \$1.

PEOPLE

Most Nicaraguans have both European and Indian ancestry, and the culture of the country reflects the Ibero-European and Indian heritage of its people. Only the Indians of the eastern half of the country remain ethnically distinct and retain tribal customs and languages. A large black minority (of Jamaican origin) is concentrated on the Caribbean coast. In the mid-1980s, the central government divided the eastern half of the country--the former department of Zelaya--into two autonomous regions and granted the people of the region limited self-rule. The 1995 constitutional reform guaranteed the integrity of the regions' several unique cultures, and gave the inhabitants a say in the use of the area's natural resources. Roman Catholicism is the major religion, but Evangelical Protestant groups have grown recently, and there are strong Anglican and Moravian communities on the Caribbean coast. Most Nicaraguans live in the Pacific lowlands and the adjacent interior highlands. The population is 54% urban.

ECONOMY

Nicaragua began free market reforms in 1991 after 12 years of economic free-fall under the Sandinista regime. Despite some setbacks, it has made dramatic progress: privatizing 351 state enterprises, reducing inflation from 13,500% to 12%, and cutting the foreign debt in half. The economy began expanding in 1994 and grew a strong 4.5% in 1996 (its best performance since 1977). As a result, GDP reached \$1.969 billion.

Despite this growing economy, Nicaragua remains the second-poorest nation in the hemisphere with a per capita GDP of \$438 (below where it stood before the Sandinista take-over in 1979). Unemployment, while falling, is 16% and another 36% are underemployed. Nicaragua suffers

from persistent trade and budget deficits and a high debt service burden, leaving it highly dependent on foreign assistance (22% of GDP in 1996).

One of the key engines of economic growth has been production for export. Exports rose to \$671 million in 1996, up 27% from 1995. Although traditional products such as coffee, meat, and sugar continued to lead the list of Nicaraguan exports, during 1996 the fastest growth came in non-traditional exports: maquila goods (apparel), bananas, gold, seafood, and new agricultural products such as sesame, melons, and onions.

Nicaragua is primarily an agricultural country, but construction, mining, fisheries, and general commerce have also been expanding strongly during the last few years. Foreign private capital inflows saw a net increase in 1996, totaling an estimated \$215 million. The private banking sector continues to expand and now holds 70% of the nation's deposit base.

Rapid expansion of the tourist industry has made it the nation's third-largest source of foreign exchange. Some 51,000 Americans visited Nicaragua in 1996 (primarily business people, tourists, and those visiting relatives). An estimated 5,300 U.S. citizens reside in the country. The U.S. Embassy's consular section provides a full range of consular services, from passport replacement and veteran's assistance to prison visitation and repatriation assistance.

Nicaragua now appears poised for rapid economic growth. However, long-term success at attracting investment, creating jobs, and reducing poverty depend on its ability to comply with an International Monetary Fund (IMF) program, resolve the thousands of Sandinista-era property confiscation cases, and open its economy to foreign trade.

The U.S. is the country's largest trading partner by far--the source of 32% of Nicaragua's imports and the destination of 42% of its exports. About 25 wholly or partly owned subsidiaries of U.S. companies operate in Nicaragua. The largest of those investments are in the energy, communications, manufacturing, fisheries, and shrimp farming sectors. Good opportunities exist for further investments in those same sectors, as well as in tourism, mining, franchising, and the distribution of imported consumer, manufacturing, and agricultural goods.

Source: U.S. Department of State: Background Notes: Nicaragua, March 1998.

APPENDIX D: BORROWER INTERVIEW SUMMARY

- 22 interviews were conducted during December 1998.
- FAMA and *Banco Popular's* clients were interviewed at the borrower's place of business. MMTD clients were interviewed at the MMTD office.
- MMTD interviewees were chosen randomly.
- FAMA and *Banco Popular* interviewees were chosen randomly but the location proximity between interviewees' place of business, and type of business, were taken into consideration.

SUMMARY OF INTERVIEW PROCESS:

Main reasons for borrowing:

	<u># Of interviewees</u>
▪ New business	12
▪ Maintain existing business	6
▪ Feed family	3
▪ Husband left her	1

Main reasons for starting business:

▪ Generate income	11
▪ Feed the family	6
▪ Improve living conditions	2
▪ Survive	1
▪ Future	1
▪ Husband left her	1

Started business with help of the loan:

▪ Yes	15
▪ No	7

Believe that would have been able to start business or continue operating business WITHOUT the help of the loan:

▪ Yes	3
▪ No	17
▪ Not sure	2

Means of collateral used:

▪ None	12
▪ Business equipment & machinery	4
▪ Tools	1
▪ Equipment	4
▪ Jewelry	1

Loan used for:

▪ Working capital only:	14
▪ Working capital and other uses:	8

Number of laborers per micro-enterprise:

▪ 1 laborer	8
▪ 2 laborers	5
▪ 3 laborers	5
▪ 4 laborers	1
▪ 5 laborers	3

Percentage of labor composed of spouse or children:

- 57%

Interviewees hiring new labor:

▪ Yes	8
▪ No	14

Interviewees reporting increase in income:

▪ Yes	19
▪ No	2
▪ Not sure	1

Expansion of business enterprise:

- Reported clientele had increased 6
- Changed to whole-sale purchasing 4
- Reported no increase in clientele 7
- Unsure 5

Improvements to home or business:

- Reported increase in assets 14
- Reported home improvement 10

Female decision-Making power:

- Improved 10
- Unchanged 2
- Unsure 3

Interviewees with dependents:

- Yes 15
- No 7

Interviewees feeling dependents benefited from the loan:

- Yes 11
- No 4

Interviewees feeling more secure about the future:

- Yes 14
- No 5
- Not sure 3

Interviewees feeling more secure about their economic situation:

▪ Yes	17
▪ No	1
▪ Not sure	4

Demographic composition of interviewees:

▪ Single males	3
▪ Single females	6
▪ Married males	4
▪ Married females	9
▪ Average age (males)	34
▪ Average age (females)	33

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