

Microfinance and Women's Economic Empowerment:

Bridging the Gap, Redesigning the Future

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Executive Summary

The country of Nicaragua has had a colorful past, painted with political revolutions, natural disasters, and an extremely active citizen population. Despite past misfortunes, the people, and more specifically the women, of Nicaragua have demonstrated an enduring spirit and strong perseverance. They are willing to work hard towards goals to grow, advance, and develop themselves, their families, and their economies. Microfinance is a useful tool that poor women can use to accomplish these goals. With careful attention to a strategic gender approach, microfinancial institutions have the potential to enable women to become socially, politically, and personally empowered, while gaining and sustaining economic empowerment through financial self-sustainability.

The microfinance industry is widespread in Nicaragua. Ordinary citizens perceive microfinance as an important part of the country's financial system, giving the poor who need and merit credit a means to access it. This report, prepared for the Wisconsin Coordinating Council on Nicaragua takes a fresh look at the microfinancial industry and its relationship to women's empowerment to propose ways in which microfinance programs can be reformed in order to have the greatest impact on women's empowerment strategies. It analyzes existing institutions and market failures that sustain the practice of restricted credit access, examines the role of women in the Nicaraguan economy, recognizes some of the existing arguments against microfinance as a tool for empowerment, and concludes with specific recommendations as well as national

regulatory limitations for creating microfinancial institutions that empower women to redefine their status in the home, community, and national economy.

Background/Context

Over the past few decades the Nicaraguan economy has suffered many political and economic shocks. From the Sandinista revolution of 1979 to the structural adjustment reforms of the 1990s, there have been many justifiable causes for an unstable and insecure economy. Today, Nicaragua is not only the poorest country in Central America; it is also the second poorest country in the Western Hemisphere (second only to Haiti), and the poorest Spanish-speaking country in the world. Nearly 50 percent of the near 5.2 million people living in Nicaragua are living below the poverty line, and the GNP per capita is about \$2200 purchasing power parity (CIA World Factbook, 2004). Nicaragua is also plagued, as are the majority of Latin American countries, with high levels of income inequality fueled by an astronomical unemployment rate of 24 percent in addition to considerable underemployment. Of the 1.7 million Nicaraguans that are employed, 42 percent work in the agricultural sector, 15 percent work in industry, and 43 percent work in the services sector (CIA World Factbook, 2004). Perhaps these divisions in the types of labor, a distinction between the formal and informal economic sectors, and gender disparities play a role in the high income inequality.

These discouraging and staggering statistics can potentially paint a picture of a dismal future for the Nicaraguan economy and financial markets operating there. Or, they can serve as the motivation behind new attempts at economic development policies and financial reforms in the country. Nicaragua's financial history, interwoven with the economic and political shocks it has encountered, has brought the Nicaraguan economy to the place it stands today. It has been reformed, restructured, and reorganized; however, it has yet to solve the problems of poverty, income disparity, and gender inequalities that plague the country. Due to high levels of

inequality, a large informal sector, and a limited network of formal financial institutions, Nicaragua is an environment ripe with potential for the entrance of microfinancial development tools. And due to the high percentage of rural poor (many of whom are women); Nicaragua has a unique opportunity to use microfinance as an avenue to promote gender equality and the social, political, and economic empowerment of rural women.

Political and Financial History of Nicaragua

The unique organization of the financial market in Nicaragua today makes it an interesting place to study the role of alternative financial institutions to fill the gaps left by formal market failures. However, in order to understand the viability of microfinance in Nicaragua, it is important to examine and understand the recent political and financial histories which have had an important role in shaping the way financial markets operate there today.

Throughout the 1960s and 1970s under the Somoza regime, Nicaragua had one of the strongest financial systems in Central America (Lennon, 1994). The formal sector housing finance system was well-developed and practices of informal lending were very common in rural parts.¹ While participation in the formal financial sector was dominated by the upper class or more affluent landowners and businessmen, a large portion of the population had some access to financial services in some form (Lennon, 1994).

With the onset of Sandinista power in 1979, both formal and informal financial institutions came unraveled due to the disjunction of the national financial system. The Nicaraguan financial system was once a network of institutions which theoretically operated according to the rules of the free market, but was quickly transformed into a nationalized system

operated by central government officials and planners. In stark contrast to the previous banking system that consisted of a Central Bank, an array of other domestic and international private commercial banks, and a state-operated development bank, the Sandinista strategy was to nationalize the private holdings of the Somoza government as well as all other private banks in Nicaragua. Many financial resources were required to build a strong military in order to secure the revolution (Martinez Cuenca, 1992). Due to this strategy of strict central governance in the financial sector, there was little (if any) development or growth in the formal financial sector.

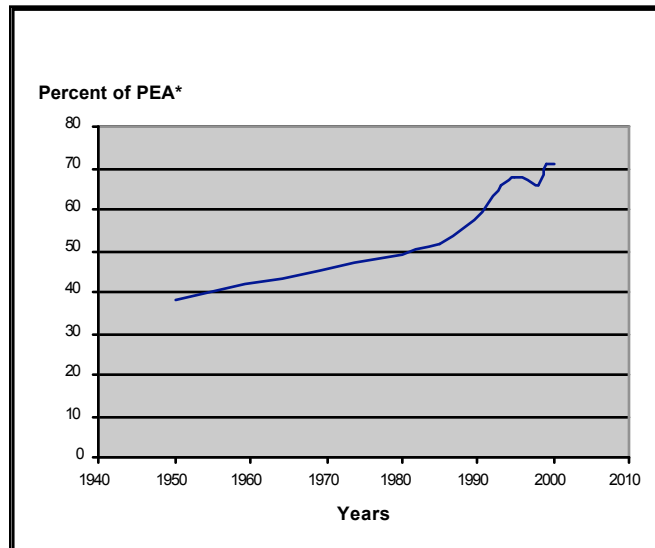
A social and economic goal of the Sandinistas was to improve the livelihoods of the rural poor. The Sandinistas felt that they needed to strengthen the people in order to gain support for the revolution (Martinez Cuenca, 1992). Thus, assistance in the form of access to credit was readily available for small farmers from the national development bank, BANADES. Special attention was paid to encourage domestic crop production, focusing on farmers largely involved in export production. Though BANADES did temporarily resolve credit restraints faced by many peasant farmers, it was operating with high losses that consequently led to high social costs as the government subsidized these losses. BANADES' potential as a long running viable institution was grim, plagued by low or negative real interest rates, high administrative costs, little to no savings mobilization programs, and low loan recovery rates (Jonakin & Enriquez, 1999). Despite fervent attempts to bring relief and developmental growth to the rural peasantry in Nicaragua, the nationalization of rural credit in addition to the mismanagement of national finances by the Sandinista administration led to the perpetual growth of Nicaraguan national debt

¹ Informal lenders include input suppliers, cooperatives, credit unions, and other marketing agents.

and instability of both the Nicaraguan financial sector and the economy (Jonakin & Enriquez, 1999).

As a response to the unstable economic policies and rapid inflation, there was swift growth in the informal sector in Nicaragua. “The informalization of productive activities” is a common phenomenon in much of the Latin American community (FIDEG, 2001). The national economic crisis resulted in low salaries in the formal sector coupled with an extremely high and rapidly increasing cost of living. These conditions forced much of the population to leave their jobs in the formal sector and turn to informal activities to make ends meet. As shown in Figure 1, the informal sector grew consistently throughout the 1980s and skyrocketed in the mid-1990s under political stabilization plans and attempts at structural adjustment programs (FIDEG, 2001).

Figure 1: Growth of the Informal Sector in Nicaragua (1950-2000)



Source: FIDEG, 2001

*PEA stands for “Población Económicamente Activa” which is the economically active population, consisting of all men and women ages 10-64 that are working or actively looking for a job.

The growth and development of the informal sector opened a door through which many women

were able to enter the Nicaraguan economy.

By late 1987, the annual inflation rate in Nicaragua was nearly 1300 percent and rapidly rising. Sandinista leaders began to realize that the effects of the economic crises along with rapidly increasing inflation and cost of living were beginning to wash away their social support base (Martinez Cuenca, 1992). Discussions about an economic restructuring and a demonetization process that would eliminate the old currency and replace it with a new one began in early 1988. Throughout the course of the two years following, economic policies moved toward liberalization. Adjustment programs were a response to the unsustainable economic disparity that plagued the nation. The measures were self-imposed and included: an adjustment of relative prices in the form of currency devaluations, cuts in government spending to reduce the fiscal deficit, the elimination of excessive controls on the economy, and the allowance of free negotiations between employees and employers to encourage more wage flexibility (Martinez Cuenca, 1992). However, obstacles such as Hurricane Joan in 1988, a failing economy plagued by high prices and inflation rates, macroeconomic adjustment programs created at the expense of the population, and an eroding social base led to the downfall of the Sandinista government in the 1990 elections.

With the onset of the new more conservative Chamorro administration in 1990, there was a strong push away from the state-led policies of the Sandinistas and toward a market-oriented strategy of liberalization. Liberalization policies, encouraged by the IMF and the World Bank, included a devaluation of the national currency (Córdoba), the privatization of all state-owned firms, and the privatization and re-establishment of the traditional banking sector which would operate under a central banking authority called the Superintendencia (Jonakin & Enriquez,

1999). In 1994, there were nine private commercial banks operating in Nicaragua (Jonakin & Enriquez, 1999). With the rising importance of the private banking sector, the role of BANADES diminished throughout the 1990s. In fact, the development bank was completely shut down by 1998 (Jonakin & Enriquez, 1999).

Unfortunately, the onset of private banking did not prove to be the solution to the country's financial woes. Private banks had little positive effect on the rural poor. The restrictions on official credit were tightened, leaving many dependent families without access to financial assistance. Lack of access to credit led to seasonal hardships for some individuals and families, and complete financial desperation for others. Many people were forced to default on state loans, severely compromising the credibility and viability of each individual's portfolio and of the entire financial system. As a result of this financial chaos, many national and international NGOs began to reach out to the rural poor through micro-lending programs. Thus, the microfinance industry was born in Nicaragua. With a fragmented and failing formal financial sector, a high percentage of rural poor, and a large number of women involved in economic activity, Nicaragua was an ideal market for microfinance to flourish as an effective development tool. The industry achieved a potential for profit while having a significant social impact on the men and women of Nicaragua.

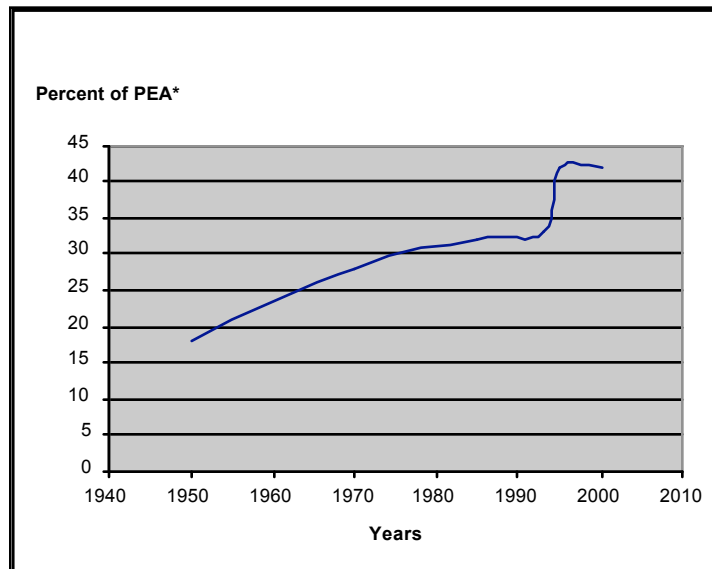
A Woman's Role in the Nicaraguan Economy

The Nicaraguan society has historically been plagued with a failure to recognize the pertinent role of women in the economy. However, a 2001 study by FIDEG calls women the fundamental pillars of the Nicaraguan Economy (FIDEG, 2001). The report cites that women

represent 52 percent of the population, and that women’s contributions to the national gross domestic product equal approximately 40 percent.² Ignorance to the magnitude and importance of women’s economic contributions has led to their exclusion from the benefits of economic development efforts. Moreover, women have very limited access to productive resources such as land, credit, technical assistance, and capital.

Since the mid-1990s, the number of women participating in the workforce has increased dramatically (See Figure 2). The boom of the informal sector in the mid-1980s provided an opportunity for many women to enter into the workforce. In the year 2000, for every 100 women in the workforce, 75.5 were employed in the informal sector (FIDEG, 2001).

Figure 2: Women’s Participation in the Nicaraguan Workforce (1950-2000)



Source: FIDEG, 2001

*PEA stands for “Población Económicamente Activa” which is the economically active population, consisting of all men and women ages 10-64 that are working or actively looking for a job.

² Of all women in the Nicaraguan economy, 24 percent work in agrícola, 33 percent in agropecuaria, 47 percent in industrial production, and 48 percent in commercial production (FIDEG, 2001).

Common jobs classified as a part of the informal sector include general commerce, provision of services, and artisan activities. Many of the jobs in the informal sector are located in urban settings; however, many of the revenues from these sales end up supporting agricultural and productive activities in rural areas (FIDEG, 2001). It is often women that find work as entrepreneurs or partners in very small enterprises in the informal sector. In fact, 70 percent of women working in the informal sector work in businesses with only 1 or 2 employees, whereas the majority of men work in slightly larger enterprises (FIDEG, 2001). While these statistics superficially suggest that women’s economic opportunities have increased dramatically through the existence of the informal sector, there are many that argue that the story is not so simple.

The level of necessary education is very low in the informal sector and the working conditions are poor. The problems of unemployment and underemployment continue to spread like an epidemic among Nicaraguan women. Those who are unemployed are defined by FIDEG as “those who are actively seeking employment,” while those who are under-employed are described as those working 40 plus hours per week at a salary that cannot cover their basic needs. Though the levels of unemployed women have been on the decline, the number of under-employed women continues to grow (See Table 1).

**Table 1: Unemployed Women in the Nicaraguan Workforce (1995/96, 2000)
(As a Percent of PEA*)**

Year	Unemployed Women	Underemployed Women	Unemployed Men	Underemployed Men
1995/96	16.30%	44.40%	9.20%	43.40%
2000	7.60%	51.20%	6%	37.20%

Source: FIDEG, 2001

*PEA stands for “Población Económicamente Activa” which is the economically active population, consisting of all men and women ages 10-64 that are working or actively looking for a job.

FIDEG reports that it is often the woman's job that is used to cover household expenses, even in households headed by male spouses.³ However, on average, women make nearly 33 percent less money than men. Thus, women are working full-time or more for a low salary that cannot even meet the basic needs of her family.

In addition to working to support her family, the woman is almost solely responsible for housework and other domestic duties. This dual responsibility leaves a woman with both an economic burden as well as a domestic burden. In many cases, if the mother of a household is unable to keep up with domestic duties due to her economic obligations, it is the eldest daughter that takes over these responsibilities. However, this often takes young girls out of school, thus decreasing their opportunity to gain a solid education and move out of the cycle of poverty that her mother is trapped in. Though the value of housework and domestic obligations is not included in a nation's GDP, FIDEG has estimated that the value of this work in Nicaragua amounts to nearly \$500 million annually (FIDEG, 2001). This dollar amount is roughly equivalent to 80 percent of Nicaraguan exports (1995), 85 percent of the international aid received, is considerably more than the Ministry of Finance collected in taxes in 1995, more than Nicaraguan public and private investments in 1995, and is six times as much as the government budgets for the Ministry of Education or Health (FIDEG, 2001). The value of a woman's work is an enormous monetary figure; however, the perceived value of this work is greatly discounted not only by the dominant male population, but also by the formal financial sector within the country.

³ This often allows men the luxury of spend his money on consumptive goods, savings, or investments (FIDEG, 2001).

The Formal Financial Sector in Nicaragua

In comparison to the rest of the Central American region, Nicaragua's formal financial sector is the most underdeveloped both in terms of volume and number of banks (Sanders & Nusselder, 2003). Despite a series of reforms and attempts to strengthen the system throughout the 20th century, Nicaraguan financial markets are weak and underdeveloped. Privatization in the banking sector did not succeed in broadening the scope of the system. And structural adjustment policies were not the miraculous cure for financial instability they were predicted to be.

In the early 1990s, financial sector reforms, accompanied by modernization of banking sector regulations, were the cornerstone of structural adjustment programs. The decade was characterized by the typical social and economic development trends of a transition economy, moving from state-dominated system to one dependent on the success of the private sector. Throughout the 1990s, appropriate institutional frameworks were put in place, helping to control inflation and significantly decreasing the current account deficit (Inter-American Development Bank, 2003). However, due to internal instability, inefficiency, and external illegitimacy, the banking sector began to decline. In late 1991, there were 14 private banks established, almost completely pushing state banks out of the first-tier banking market (IADB, 2003). In addition, the Superintendencia was established as the cornerstone of a formal regulatory framework for private banking institutions, closely followed by an array of reforms of banking legislations and the establishment of prudential banking standards.⁴ As a result of these reforms and financial sector deregulation, there was tremendous growth in the banking sector. At the beginning of the

decade, financial assets in the banking sector totaled US\$585 million, and by late 2000, they totaled US\$1.817 billion, as is demonstrated in Tables 2 and 3 (IADB, 2003). In addition, throughout the 1990s, nonbank financial institutions also boasted high growth rates, with the development of specialized financial institutions like private insurance providers, bonded warehouses, and other miscellaneous finance companies (IADB, 2003).

**Table 2: Evolution of the Formal Financial Sector Balance Sheet
(in millions of US dollars)**

	2002	2001	2000	1999	1998
Assets	2,009.10	1,906.50	1,816.50	1,828.40	1,574.00
Gross Portfolio	681.7	696	891.8	1,113.10	883.2
Investment	799.1	659.8	365.4	277.7	212.1
Liabilities	1,879.90	1,786.90	1,679.70	1,707.70	1,493.10
Deposits	1,644.70	1,495.20	1,413.70	1,431.80	1,280.30
Capital	129.20	119.50	136.8	120.70	80.80
Earnings	32.90	34.30	24.1	26.70	12.70

Source: IADB Report, 2003

Table 3: Average Annual Percentage Changes

	2002	2001	2000	1999	1998
Assets	5.40	5.00	-0.70	16.20	.
Gross Portfolio	-2.1	-22	-19.9	26.00	.
Investment	21.1	80.6	31.6	30.9	.
Liabilities	5.20	6.40	-1.60	14.40	.
Deposits	10.00	5.80	-1.30	11.80	.
Capital	8.10	-12.60	13.3	49.40	.
Earnings	-4.10	42.00	-9.7	110.70	.
# Regulated Fin. Institutions	10	9	11	13	14

Source: IADB Report, 2003

Despite the structural reorganization and regulatory growth of the sector throughout the 1990s, there remained a lack of adequate supervision and technical capacity. Quick growth in

⁴ Additional reforms were instituted in late 2000 to keep up with international regulatory standards. Reforms included publication of the General Law on Banks, Nonbank Financial Institutions, and Financial Groups; the SBIF

risk assets and concentration, along with a variety of external factors led to problems with liquidity and creditworthiness, and ultimately resulted in the default of four major banks in June 2000.⁵ However, to avoid complete collapse, banking authorities guaranteed all other deposits and liabilities. Though the crisis led to the default of four major banks, it also led to greater concentration, capitalization, and mediation of the remaining institutions (IADB, 2003). Confidence began to rise among the public, and from December 2001 to June 2002, deposits in local currency and foreign exchange increased by US\$150 million (IADB, 2003). Despite renewed public confidence and a more structurally sound financial sector, banks are unable to meet the financial needs of all Nicaraguans due to strict client regulations and restrictions (See Table 4). Thus, Nicaragua remains the country with the lowest per capita income in all of Central America.

Table 4: Formal Banking Sector Statistics

Name of Bank (Banco de...)	Acronym	Approximate # Branches	Minimum Deposit Required
America Central	BAC	20	\$0 (USD)
Credito Centroamericano	BANCENTRO	25	\$500
Banco Uno	BANCOUNO	10	\$500
Produccion	BANPRO	26	\$100
Finanzas	BDF	35	\$100
Caley Dagnall	BANCALEY	11	\$100 (Córdobas)

Act, and the BCN Act (IADB 2003, 4).

⁵ These four banks comprised 40 percent of all assets in the system and 39 percent of deposits (IADB 2003, 6).

By the end of 2002, there were only six banks in Nicaragua (most of them head-quartered in Managua or other metropolitan areas), as compared to a regional average of 107 per country (Sanders & Nusselder, 2003). In addition, the assets of Nicaraguan banks (in millions of US dollars) were \$2,009.1 compared to a regional average of \$30,133 (Sanders & Nusselder, 2003). This small banking sector has limited opportunities to reach economies of scale that could possibly encourage more efficiency within the system. Though there was substantial growth in the economy throughout the 1990s (with the exception of the banking crisis), Nicaraguan businesses are still behind in their technological production capabilities which has severe implications for their ability to create jobs and economic growth. There is a lack of stable medium and long term credit resources which inhibits enterprises from investing in the productive and technological conversions that they need to undertake to become competitive (Sanders & Nusselder, 2003).

Of the nearly 5 million people living within the borders of the country, more than one third of the population lives in conditions of poverty. In addition, it is estimated that 40 percent of Nicaraguan households are in need of credit (Sánchez, 2000). The high demand for funds in the poor population is generally derived from a necessity to cover basic, daily, consumptive expenses, with little concern for long-term productive investments. However, since credit in Nicaragua is so highly restricted, only 9 percent of households were able to acquire a loan for the necessary amount under reasonable conditions (Sánchez, 2000). An additional 23 percent of households have limited access to credit, facing extremely severe credit restrictions (Sánchez, 2000). It is important to note that rural and poor households have the highest credit demand, and the most restricted access to it.

The small size of the formal financial sector also limits access by rural and remote populations. High lending and low borrowing interest rates, in combination with limited and inconvenient physical locations of the few banks, discourage and/or prohibit many poor Nicaraguans from participating in the formal financial sector. It is often the case that many rural women have absolutely no means of participating in the formal financial sector, and are forced to seek credit services through alternative means, which are often unsafe and expensive. The Nicaraguan formal financial system is thus plagued by inefficiency, ineffectiveness, and market failures. These breakdowns in the system create a natural niche for the entrance of alternative forms of financial services.

Specific financial concerns often differ amongst different age groups, socio-economic groups, countries, cultures, and genders. The poor, especially in Nicaragua are primarily concerned with access to and cost of financial services. Being excluded from the formal financial sector, many Nicaraguan women are served financially by informal moneylenders who often provide easy access to financial services but at extremely high nominal monthly effective interest rates typically ranging between 10 percent to more than 100 percent (Robinson, 2001). In Nicaragua, the financially unsustainable reliance on the informal sector, the failure of government led development banks (BANADES), the highly limited access of the population to the formal financial sector, and the high population of rural poor creates an environment ripe for the growth of another necessary service industry—and the birth of microfinance. By allowing the poor access to credit and savings, microfinance can be both a profitable business as well as a development tool that reaches out to those who have not been reached by the formal financial market or who are unable to gain access to it.

**Table 5: Breakdown of the Nicaraguan Financial System
(in millions of US dollars)**

	Banks	Financial Institutions	Credit Unions	NGOs	Total
Assets	1,930	79	22	64	2,095
Portfolio	629	53	12	52	745
Liabilities	1,810	70	18	38	1,928
Deposits	1,607	38	3	0	1,500
Capital	120	9	4	26	152
# Institutions	6	4	221	16	.

Source: Inter-American Development Bank, 2003

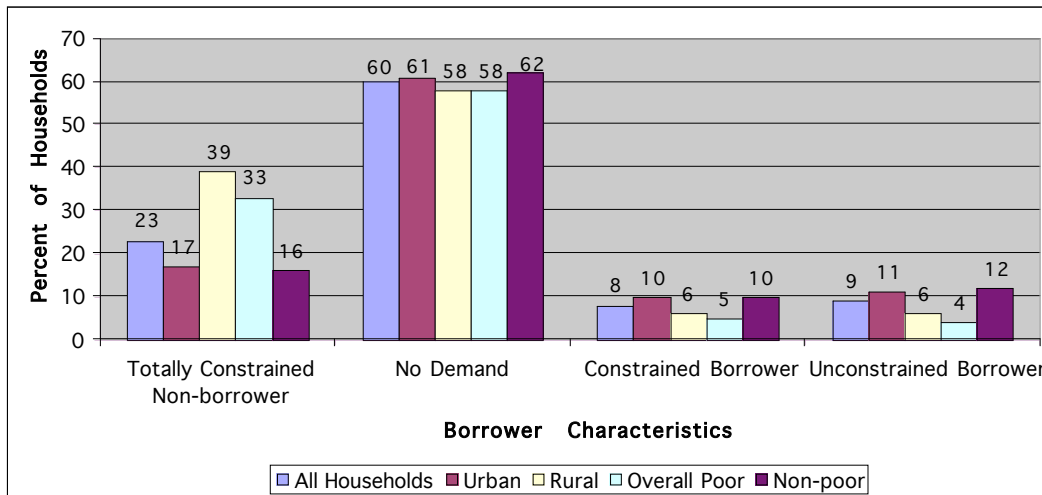
The Onset of Microfinancial Services

“Microfinance refers to small-scale financial services—primarily credit and savings—provided to people who farm or fish or herd; who operate small enterprises or microenterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries, both rural and urban” (Robinson, 2001).

In general, the goals of microfinance seem practical and feasible. The microfinance industry strives to provide services that help the low-income poor reduce financial risk, improve their management skills, increase their productivity and therefore their income, collect higher returns on investments, provide financial and emotional security, and improve the overall quality of life for their families (Robinson, 2001). With a large low-income population, the achievement of these goals would be a tremendous feat for the entire country of Nicaragua, the microfinance industry, and the individual lives that are bettered in the process.

The microfinance industry in Nicaragua has a fair reach among the population—there are approximately 30 identified microfinance organizations (as compared to only 6 formal banks) in a country of approximately 5 million people (Katalysis, 2001). However, of the 40 percent of the population that has a demand for credit, only 9 percent are totally unconstrained borrowers, meaning that they are completely satisfied with the amount of the loan they received (Katalysis, 2001). In addition, approximately 23 percent are completely constrained to the point that they cannot receive a loan (See Figure 3).

Figure 3: Restricted Access to Credit Loans



Source: Blijdenstein, 2002, Page 10

- Totally Constrained Non-borrowers: Those that have no access to credit
- No Demand: Those that have no demand for loans
- Constrained Borrowers: Those that have a loan but not of the desired quantity
- Unconstrained Borrowers: Those that have loans and are satisfied with the amount.

In 2002, it was estimated that nearly 20 percent of the Nicaraguan population could be characterized as either a direct or indirect user of microfinance services (Blijdenstein, 2002).

Therefore, the numbers show that the industry is increasing in size and reach. However, as this table demonstrates, there is much room for improvement in terms of access and borrower satisfaction within the existing industry.

The vast majority of existing microfinance institutions are part of the Nicaraguan Association of Microfinance Institutions (ASOMIF),⁶ a group of 21 non-governmental microfinance institutions and savings and credit cooperatives that have united to form an association that represents the voice of the microfinance industry in Nicaragua (www.asomif.org).

Table 6: Nicaraguan Association of Microfinance Organizations (ASOMIF)

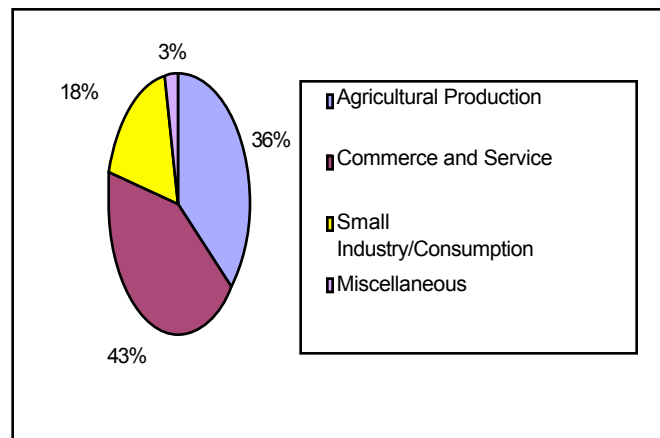
Institutions	Headquarters	# Agencies	Clients	Portfolio (1000 USD)
FDL	Managua	28	23,759	14,564.80
FAMA	Managua	20	22,682	8,994.50
ACODEP	Managua	23	18,143	6,632.70
F Jose Nieborowski	Boaco	8	9,619	6,448.40
PRODESA	Juigalpa	4	4,949	4,875.30
CARUNA	Managua	13	7,428	3,896.90
CEPRODEL	Managua	9	3,718	3,304.50
FUNDENUSE	Ocotal	7	7,459	3,103.50
PRESTANIC	Managua	5	1,874	3,019.30
FINCA Nicaragua	Managua	7	29,420	2,669.20
FIDESA	Managua	4	1,729	2,110.20
F Leon 2000	Leon	4	4,026	1,685.40
F 4i-2000	Masaya	4	6,269	1,489.10
FUNDESER	Managua	13	4,870	1,373.10
COOP. 20 de Abril	Quilalí	1	1,418	1,136.10
PROMUJER	Managua	4	11,096	1,035.30
ASODERI	Rivas	2	1,882	1,010.00
FUNDEPYME	Managua	5	716	869
FODEM	Managua	3	1,955	676
ADIM	Managua	4	1,311	362.9
TOTAL		168	164,323	69,256.20

The 168 branches of ASOMIF members reach nearly 165,000 clients with a total portfolio of nearly \$70 million (USD). As shown in Figure 4, 36 percent of that portfolio is dedicated to

⁶ Therefore, much of the data used to describe the microfinance industry in Nicaragua comes from sources reported by ASOMIF. The data, therefore, may leave out some of the operating microfinance organizations in Nicaragua, but is a good proxy for the majority of the microfinance portfolio that exists in Nicaragua.

agricultural production, 43 percent to the commerce and service industry, 18 percent to small industry and livelihood consumption, and 3 percent to other miscellaneous activities (www.asomif.org).

Figure 4: Breakdown of the ASOMIF Portfolio



Source: www.ASOMIF.org

ASOMIF’s mission is to “represent, support, and organize, and strengthen the organizational capacity of a national web of microfinance institutions that permanently and sustainably contribute to the promotion and development of micro, small, and medium-sized entrepreneurs in both the urban and rural sectors” (www.asomif.org). The overall strategic vision of ASOMIF is to advocate for a set of specific legal regulations for microfinance institutions set in place by the state. They believe that the presence of a specific law regulating this industry would allow institutions to fill more of the demand, offer more financial services to their clients (including savings services), work with the same interest rates as the rest of the formal financial market, offer solid guarantees, and be flexible to the specific personal needs of their borrowers.

There are two regulated financial institutions that are not a part of ASOMIF, and therefore are not included in the estimates of the size of the industry: FINDESA and CONFIA. With a portfolio of nearly \$11.5 million (U.S.), FINDESA serves approximated 10,000 borrowers (FINDESA, 2003). CONFIA, on the other hand, has a portfolio of \$24.5 million (U.S.).⁷ CONFIA is the largest provider of microfinancial services in Nicaragua, and its mission continues to lead its growth: “To efficiently provide financial services to micro and small enterprises in Nicaragua”(CONFIA, 2002). While focusing on “micro” loans, both of these institutions do offer credit to people on both ends of the financial spectrum. Microcredit is a vital part of both of their portfolios; however, due to the difficulty in defining what qualifies as microcredit, it is difficult to estimate their specific financial contributions to the size of the microfinance industry in Nicaragua. Therefore, the scope of the microfinancial industry in Nicaragua is some combination of the combined portfolios of ASOMIF members, the percentage of portfolio from FINDESA and CONFIA that qualifies as “micro” credit, and the portfolios of other small providers of financial services that are not a part of the previous two categories.

Limitations of the Microfinancial Sector

Perhaps the most prevalent critique of microfinance in today’s international system is that it does not have the ability to reach “the poorest of the poor.” Regardless of the arguments about what microfinance *should* do, it seems clear that this critique is generally true. The United Nations Consultative Group to Assist the Poor (CGAP) stated that “most microfinance clients today fall in a band around the poverty line and the extremely poor are rarely reached by

⁷ This is a dramatic growth from the end of 2002 portfolio balance of \$14.1 million, and the end of 2000 portfolio balance of \$1.4 million (CONFIA Annual Report, 2002, p.9).

microfinance” (CGAP, 2003). In addition, there is a lack of consensus as to whether reaching the poorest *should* be the goal of microfinancial institutions. First, it is much more expensive to reach the poorest, both for the institutions and the clients themselves. If an individual accesses credit, but does not have the financial capability to service that debt, access to loan services and interest rates become an additional burden. The poorest also request small individual loans with flexible repayment schedules, services that are very expensive for a microfinance institution to provide. Second, while the poorest do have a demand for financial services, perhaps their demand for necessary social services is more important. It is often the case that the poorest lack access to food, shelter, and sanitation—all needs that cannot be fulfilled permanently with short term loans. It is more likely that microfinance services will benefit these people once their basic needs are taken care of by either a government service, or international relief and development organizations.

As women often fall into the category of the poorest, it has been argued that microfinance may not be beneficial to them. In Nicaragua, however, women are often the ones who are working to provide for the rest of the family. The working poor, who often fall into the category of the poorest, have great potential to benefit from microfinance services. For example, access to credit for a woman struggling to provide for her family by running a small enterprise may enjoy great benefits through an opportunity to enhance her business. Simple access to financial services, however, can not guarantee empowerment or poverty alleviation, especially for women in an economy dominated by male policies. Therefore, there is much room for growth and improvement in the microfinancial sector. Despite legal limitations in Nicaragua (see page 49), there is an increasing demand to improve on what exists in terms of greater depth and social

impact, especially in terms of empowerment among women borrowers. Thus, ASOMIF has created a Commission on Gender that takes on projects and programs with the goal of bringing microfinance and all of its benefits equally to both men and women in Nicaragua. In September of 2003, this commission proposed a 2 year, \$200,000 (USD) project to truly create a gender focus within ASOMIF and all of its affiliated organizations in order to advance the goal of equal opportunities for the development of both men and women.

The program aims to: infiltrate the policies, laws, and strategies of ASOMIF with a gender-sensitive approach; contribute to the design, development, and implementation of methodologies that lead to a gender focus in member organizations; contribute to improving the image of ASOMIF through communications that distribute information about its challenges, successes, and failures while working towards a gender perspective; clearly describe the ASOMIF experience in order to create a comprehensive list of “best practices” for other institutions attempting to incorporate the principle of gender equality into their strategic plans; and contribute to the feasibility and sustainability of the process of incorporating gender equality into the foundation of the Nicaraguan microfinance industry. The program consists of the following six components:

- Education and Formation
- Development of Methodology
- Communication and Information
- Description of the ASOMIF Experience
- Institutionalization of Lessons
- Monitoring and Evaluation

Through the implementation of this program and the growing strength and influence of ASOMIF and its Gender Commission, the natural connection between women’s empowerment and

economic development tools such as microfinance will continue to become evident in Nicaragua. Led by the ASOMIF Gender Commission, there is a growing awareness of the need for a strong partnership between economic development and women's empowerment. But despite the current lack of coordination among microfinancial institutions and women's organizations and the unused potential of microcredit organizations, the industry has had substantial *individual* impacts on the livelihoods and enterprises of many Nicaraguan women.

Impacts of Access to Credit on Women in Nicaragua

“Most poor people are women and most women are poor.”

It is estimated that 70 percent of the world's population living on less than \$1 per day are women (United Nations Expert Group on Women and Finance, 1995). However, it is also true that most low-income women are economically active in some form. Women producers and entrepreneurs are vital economic actors. Though their roles and the value of those roles are often undervalued in society, women need and deserve access to information, financial services, and markets (United Nations Expert Group on Women and Finance, 1995). Therefore, access to credit and other financial services are necessary to provide low-income women with opportunities to increase their incomes and their assets (United Nations Expert Group on Women and Finance, 1995).

It is also in a nation's best interest to promote gender equality, both for the benefit of the female population as well as for economic development. The World Bank reports that societies with high levels of gender inequality experience higher levels of poverty, slower economic growth, weak systems of governance, and a lower standard of living (World Bank, 2001). There are also many reports suggesting that men contribute an average of 50-68 percent of their income

to the general funds of the household, while it is a woman's salary that is utilized in covering most household expenses (Chant, 1997). Thus, putting working capital into the hands of a woman may have an effect on her economic and social empowerment, and may also have a positive impact on the health, education, and quality of life of her entire family.

A woman's role in the economy is an important determinant of her ability to provide health care services, education and safe housing for herself and her family. It also has an impact on her decision-making power, as well as her ability to speak and act against inequalities, injustice, and violence in her home as well as in the community. The ownership of working capital is a means to building a woman's confidence, self-respect, and the capacity to use her voice to shape her life and the lives of her family members (United Nations Expert Group on Women and Finance, 1995).

The success of the micro credit industry has provided many of the aforementioned benefits for poor working women in Nicaragua. A study published in January 2003 by FIDEG and the Wisconsin Coordinating Council on Nicaragua was a significant first step in reporting to the community the social impact that micro credit has had on the national economy, the rural poor, and the female population.⁸ The study reports that more than 66 percent of credit lent in Nicaragua went to women borrowers (WCCN, 2001). Of those women borrowers, nearly 84 percent of them request a loan in order to start, further develop, or purchase materials for their business or small enterprise (WCCN, 2001). Not only do loans to women increase the stability

⁸The Wisconsin Coordinating Council on Nicaragua is an organization committed to working in partnership with Nicaraguans to promote social and economic justice through alternative models of development and activism. The organization consists of the NICA Fund, a second-tier microcredit loan fund, and the Women's Empowerment Project (WEP), committed to identifying challenges all women face and forging connections across borders. Thus,

and viability of their business, they often have a positive effect on their self-esteem, their economic security, and their overall quality of life.

Comparing the study done by FIDEG and WCCN with two other studies also conducted in 2002 (Zamor, et al., 2002; Sanders and Deugd, 2002), it is clear that women's perception of the microcredit industry in Nicaragua is positive overall. Women see access to credit loans as an important element of their business and personal development (Deugd, 2002). In each of these studies, women's perceptions of the impacts of microcredit were measured at the business level, the family level, and the personal level.

Between 86 and 95 percent of female clients reported that microcredit loans had a positive impact on their business operations (Deugd, 2002). With loans, many women reported that they were able to diversify their products and their inventories, increase the supply and quality of the products they offered, and expand sales figures. In terms of positive impacts at the family level, clients reported a 28-30 percent increase in the standard of living of their children in terms of education, nutrition, and health (Deugd, 2002). However, at this point, there has been very little positive impact perceived in terms of women's decision-making abilities within the family. In terms of perceptions of the impact of credit at the personal level, many women emphasized their satisfaction with feelings of self-sufficiency and independence that were a result of work supported by the micro loans (Deugd, 2002). Many women felt a positive impact on their self-esteem and their ability to create and support new activities.

WCCN has a strong interest in identifying the ways in which micro credit can contribute to the social, political, and economic empowerment of Nicaraguan women.

Though there is anecdotal and survey evidence of particular positive impacts of microcredit on women in Nicaragua, there is inconclusive data examining these changes and their links with the overall quality of life of women. A study done in southern Nicaragua (PRODESUR, 2000 and 2002) reports that examining the average of the data shows that the standard of living for women appeared to have increased as a result of microcredit (Deugd, 2002). However, the results were different depending on how the data was categorized. Overall, the authors of the study found that organizations that combined technical and non-financial services with financial services had a much more positive perception of the impact of microcredit in Nicaragua (Deugd, 2002). Therefore, the impacts are conditional on the quality of the programs. The question remains: do these positive perceptions of the impact of microcredit actually translate into what we will define as women's empowerment?

Empowerment

The definition of the concept of empowerment is highly contentious in the context of development and social movements around the world. In general, each definition strives to define and describe the ways in which power is expressed, both in social interaction and personal relationships. The concept of empowerment becomes extremely important in the context of sustainable development and how it is related to women. In many historically male-dominated societies like Nicaragua (and many others in Latin American for that matter), it is important to address the issues of women's status and rights in order to enable them to make the best uses of their resources. Gender equality and women's empowerment will have a large and positive impact on national, community, and household economies. It is also necessary to increase the well-being, self-confidence, and respect of women throughout their personal and social networks.

What is empowerment?

Empowerment is the ideal combination of change, choice, and power (Cheston & Kuhn, 2002). "Empowerment is bringing people on the outside of a decision process into it" (Rowlands, 1997). It is "the ability to obtain an income that enables participation in economic decision-making" (Rowlands, 1997). Individuals become empowered when they obtain, "the right to determine choices in life and to influence the direction of change, through the ability to gain control over material and non-material resources" (Rowlands, 1997).

These definitions all contribute to a different aspect of the concept, and point to the conclusion that empowerment is necessary for poor and marginalized women to improve their situation. In terms of gender and development, empowerment is perceived to be a progressive process rather than an end product. This process involves a transformation through which individual women and groups with little power gain the ability to make choices and decisions that affect the course of their lives (Cheston & Kuhn, 2002). The process of empowerment begins with examining the answers to a set of questions in order to identify areas of potential effective action that could enhance the process (See Figure 5):

Figure 5: Questioning Empowerment

1. In what aspects of [women's] lives is there self-confidence? Where is it lacking? Why?
2. What are the elements of the situation which, through their presence or absence, encourage or inhibit self-confidence?
3. Where do they have a sense of being able to act, to cause things to happen? Where do they not? Why? What kinds of decision-making do they actively participate in?
4. How do they perceive themselves? In what ways do they limit themselves and their expectations?
5. Do they have a sense of being worthy of the respect of others or themselves?
6. Do they relate to a wider context? What? Where is it limited? Why?

Source: Rowlands, Jo. *Questioning Empowerment: Working with Women in Honduras*. UK: Oxfam. 1997, p 130.

These questions address some each of the core factors involved in the process of empowerment. They encourage a deep understanding of the causes and manifestations of female

subordination in the home, community, and the economy. True and complete answers to the questions have the potential to provide vital insights into how programs can and should be designed to address and encourage the process of women's individual empowerment while ultimately pursuing and strengthening successful community development strategies. The following set of questions in Figure 6 serve as a follow-up to the previous ones. They present inquiries about the feasibility and necessity of changes in terms of program designs, activities, and projects:

Figure 6: Questioning the Process of Empowerment

1. What activities and methodologies are needed?
2. What existing or new structures are needed?
3. What support or encouragement would make a difference? From whom?
4. What are the barriers? How might they be minimized?
5. How can the process be encouraged and strengthened?
6. What changes might be expected?
7. What methodology can be used that is consistent with the empowerment process? How can it build on existing abilities and experience?
8. What time scale is appropriate?
9. What are the internal power dynamics within the group?
10. What are the dynamics between the group and the supporting organization? What forms of power does the group have available to draw on?

Source: Rowlands, Jo. *Questioning Empowerment: Working with Women in Honduras*. UK: Oxfam. 1997, p 131.

The large scope and complexity of the process of empowerment makes it somewhat difficult to measure sequential outcomes. However, there are some general results by which to evaluate the success of a program's support of the empowerment process. Xochilt-Acalt, a women's organization working toward empowerment in Nicaragua cites some of their experience in terms of the signs of successful women's empowerment. In order to evaluate the process of empowerment, they look for a fundamental change in the traditional domination of women by men in terms of life options, economic wealth, personal opinions, control of household resources, and personal decision-making opportunities (Montenegro & Cuadra, 2004). They examine the

extent to which responsibilities and decision-making abilities in the home and the community are shared between men and women. They look for changes in experiences and relationships between women, their spouses, and their families. Other signs of the positive impacts of empowerment on women include an increase in self-esteem, a decrease in the occurrence of domestic violence targeted at women, an increase in women's involvement in the community, and a fundamental change in the perception of and respect for women by herself, as well as in the home and community (Montenegro & Cuadra, 2004). These results require institutional support, but also demand that a woman change the image she has of herself. Feelings of inferiority in terms of abilities, talents, and responsibilities need to be transformed. Women must collectively defeat the belief that they are not entitled to the same rights as men, form collective groups to pursue social and political transformation, and take responsibility for changing the unequal power relations that are prevalent in many Latin American countries.

Women's empowerment in Nicaragua is a process. It is the process by which women become social agents, defining and accomplishing their goals. It requires strong determination and a willingness to take proactive steps to achieve those goals. And it also requires institutional support from both women's organizations and the microfinancial institutions in Nicaragua who are in the best position to grant women the benefit of access to a physical resource (credit and/or savings) and enable them to use it in a way that benefits their well-being, the well-being of their families, and the well-being of their community. The ways in which microfinancial institutions operate today may or may not promote women's empowerment. In fact, this is a rather contentious issue that has valid arguments on both sides. We will look at some of those arguments against microfinance as a tool for women's empowerment, and then offer suggestions

as to how institutions can change to incorporate an alternative gender perspective into the work that they do.

Arguments Against Microfinance

There are many conflicting opinions about the ability of microfinance as a development tool to reach poor women in Nicaragua. Many are uncertain about its ability to create and foster an environment of truly sustainable and holistic development. Some of the loudest voices in this debate come from women's groups and organizations that do not see a clearly causal relationship between financial stability and women's empowerment. Their arguments center around three primary issues: the relationship between structural adjustment programs and the onset of microfinance, the physical limitations and/or past failures of microfinancial programs, and the inability of microfinance to create a culture of holistic empowerment.

Structural adjustment programs (SAPs) are the primary engine through which women's lives have been affected by the recent forces of globalization. SAPs were initially instituted by the International Monetary Fund (IMF) and the World Bank as a way to aid heavily indebted countries restructure their economies to create growth. Most of these states, including Nicaragua, have adopted economic packages that contain some combination of the following factors

(Wiegersma, 1997):

- Severe cuts in government spending to balance federal budgets and reduce debt;
- Restrictive monetary policies created to control inflation (currency devaluations, restricted incomes, etc.)
- Privatization of government enterprises to increase the productivity and efficiency of private sector businesses
- A heavy emphasis on the export sector (agriculture and manufacturing) to foster international balances

The fundamental argument against these programs from a woman's perspective was summed up by UNICEF in 1989. These programs "intensify the trade-off between women's producer and non-producer roles, or, in stronger terms, that the 'crisis of social disinvestment' (under adjustment) is financed from a 'social fund' provided by the superhuman efforts of poor women" (Baden 1997, 38). Thus, in order to achieve the goals of growth and economic efficiency intended for these programs, women's burdens are increased and their labor is exploited. Therefore, women seeking credit from microfinance institutions are not creating businesses out of a personal desire to become entrepreneurs; they are forced to work so that they and their families can survive in the vicious economic cycle that has been created by SAPs.

Women's groups also feel that structural adjustment policies and the forces of globalization have had a negative effect on the living and working conditions that women face as they become more involved in their local economies. First, as a result of mandatory decreases in government budgets, many local economies have been devastated by the elimination of basic social service programs such as education and health care (Poster & Salime, 2002). Thus, a woman's share of household labor has increased as she is responsible for the survival of her family and providing those services that the government no longer offers. In addition, the woman faces an intensified burden from taking jobs in the local economy to supplement, if not to fully provide, the family income.

Another consequence of structural adjustment and globalization trends is a severely limited labor market for women. Whether as a result of limited job availability overall, or as a result of gender discrimination, a woman's access to formal sector jobs in Nicaragua is nearly nonexistent. In response to this phenomenon, Nicaragua has seen a rapid increase in female

employment in the informal sector.⁹ FIDEG reported that in 2000, for every 100 working women in Nicaragua, 76 work in the informal sector (FIDEG, 2001). This work is unprotected labor, and is unrecognized and unregulated by the state (Poster & Salime, 2002). There are no protections from unemployment, no benefits, relatively low wages, and few opportunities for personal growth and advancement.¹⁰

However, regardless of their working conditions, many women in Nicaragua are convinced that “every little bit helps.” In many cases, women see themselves and their ability to labor as the only reliable resource available to provide for their families. Nicaraguan women often feel a responsibility to raise household incomes regardless of the locations or conditions of their work (FIDEG, 2001). They see the informal sector as a link to the local economy, as it has proven to be the most accessible avenue to gain work and an income (Poster & Salime, 2002).

Many international development organizations have grasped onto this concept of accessibility. As economic adjustment programs have reorganized local labor markets, many development agencies have reorganized the way in which they deal with aid to poor women (Poster & Salime, 2002). The promotion of self-employment (and microenterprise development) has become the prevalent model in aiding poor women, and many women’s groups have taken issue with that strategy (Poster & Salime, 2002). Feminist critics argue that first world discourse about microcredit programs that target women’s development can be sharply contrasted with the reality of those program outcomes (Poster & Salime, 2002). It is often the case that policies

⁹ Informal sector activities include but are not limited to: domestic service, small-scale production of food, home production of handicrafts and art, commerce and trade, etc. (Poster and Salime 2002).

¹⁰ In 2000, FIDEG reports that only 13 percent of workers in the informal sector were well-employed, while the remaining 87 percent were underemployed. Underemployed in this case is defined as those working 40+ hours per week at a salary inferior to cover a family’s basic needs (FIDEG, 2001).

aiming to empower women unintentionally transfer the burden of raising household income to the woman, and transfer the domestic burden of household labor to her daughters (Poster & Salime, 2002).

Feminist critics of microfinance also argue that poverty alleviation models have over-emphasized the importance of private funding and support. There has been a shift from development as the responsibility of nation-states to development as the responsibility of the global community, including international markets, financial institutions, and private corporations and organizations (Poster & Salime, 2002). The microfinance industry is an example of how development has transformed into a business that prefers private lenders over government-sponsored funds. It is consistent with the leading model (driven by structural readjustment) that encourages decentralization, self-employment, and individual entrepreneurship (McMichael, 2000). However, critics of this type of model argue that this type of neo-liberal economic agenda relies on the strengths of individual women to help themselves, rather than focusing on structural changes in the economy (Kabeer, 1999). Thus, it is up to each woman to fight for her own individual rights and to better the livelihood of her family. With this individual focus, critics believe that it is unlikely that microfinance will have the ability to empower women to improve their status in the home, the community, and in the national economy.

Regardless of global feminist critiques, it is clear that the onset of microfinance has had some positive effect on women's economic activity in Nicaragua. There are undoubtedly techniques to bridge the gaps between feminist critics and microfinance proponents. The question is how to create programs that turn economic involvement into an activity that provides an adequate income, improves working conditions, decreases the burden of work hours, supports

economic advancement, and leads to an environment supportive of holistic women's empowerment.

Different Approaches: Women and Microfinance

Literature and discourse of many international organizations promoting microfinance report tremendous growth in the industry. They argue that microfinance has been able to reach large numbers of women borrowers, contribute to global development and poverty alleviation strategies, and promote women's empowerment across the globe (Mayoux, 2002). However, feminist critics have questioned the extent to which programs that focus solely on financial self-sustainability actually contribute to women's empowerment. Linda Mayoux breaks down the current views on the impact of microfinance on women's empowerment into four categories based on different interpretations of both empowerment and sustainability (Mayoux, 2002):

- Absolute optimism about the global development of microfinancial programs and their ability to empower women clients;
- Recognition of the limits of current microfinance program models, but confidence in the potential development of alternative strategies that minimize negative impacts and contribute positively to empowerment;
- Recognition that microfinance is an important development tool, but belief that empowerment should be addressed by other means;
- Attitude that emphasis on microfinance is a poor use of resources that could be used for more effective empowerment strategies.

People within these categories each have varying degrees of agreement with earlier arguments against microfinance. Opinions may vary with personal experiences with different types of institutions and programs, depth of knowledge on the topic, and individual or theoretical logic. To illustrate the differences in theories leading to empowerment, Mayoux (2002) also defines three specific paradigms that link microfinance to women's empowerment:

I. Financial Self-Sustainability Paradigm

- This paradigm is most commonly found underlying international donor agency models (e.g. promoted by USAID and CGAP).
- The major policy focus of this paradigm is to encourage and support financially self-sufficient microfinance programs with the goal of reaching the greatest number of end borrowers.
- This paradigm targets women on the basis of efficiency concerns in that women tend to have the highest repayment rates.
- This paradigm focuses on economic empowerment, the encouragement of self-employment and self-reliability, and individual initiative.

II. Poverty Alleviation Paradigm

- This paradigm is inspired by interdisciplinary community development programs that are targeted at relieving poverty.
- The major policy focus of this paradigm is to use microfinance as one part of an integrated approach to alleviate poverty and improve the livelihoods of the poorest households.
- This paradigm targets women based on the belief that there are higher levels of poverty within the female population and women take primary responsibility for her household's well-being.
- This paradigm focuses on empowerment in terms of increased well-being, self-sufficiency, and community development.

III. Feminist Empowerment Paradigm

- This paradigm has roots in the international women's movement (Sen and Grown 1988) and is commonly found underlying the policies of many gender-oriented NGOs. It is the foundation for some of the earliest microfinance programs such as SEWA and WWF in India.
- This paradigm focuses on microfinance as a stepping stone for women to enter into social, economic, and political empowerment.
- It targets women in the name of gender equality and human rights.
- This paradigm focuses on empowerment in terms of a transformation of relationships of power throughout a society.

Throughout the 1990s, the first two paradigms emerged as the leading views. However, microfinance had come to a fork in the road (Robinson, 2001). Though both approaches were leading toward assistance for the poor, each had its own means of reaching that goal. Both donor

agencies and governments involved in supporting microfinance face a scarcity of resources, and each must decide how to best allocate them.

The financial sustainability paradigm concentrates on a large-scale outreach that aids the working poor (Robinson, 2001). This approach focuses on borrowers who have the ability to repay loans based on household or business incomes, and also on savers (Robinson, 2001). Self-sufficiency of both the client and the institution is crucial in terms of reaching the greatest number of people. Given the demand for credit and other appropriate financial services, an independent, self-sustaining, and growing financial institution is the key. The poverty alleviation approach focuses on offering credit services, coupled with services such as literacy and numeracy training, health, nutrition, and other technical assistance programs to the extremely poor (Robinson, 2001). Under this paradigm, donor and government funded credit is subsidized and offered to borrowers at interest rates below market rates (Robinson, 2001). The mobilization of savings is not a focus of this approach, as many of the clients simply do not have the resources to save. The theory behind the poverty alleviation approach aims to reach the poorest of the poor and offer them credit and the opportunity to overcome poverty and embrace empowerment.

Critics of the poverty alleviation paradigm argue that this type of program is not a sustainable tool for development, in that it relies completely on donor agencies and government subsidies to operate efficiently. It leads to dependent institutions that fall short of reaching the demand for credit and savings services. On the other hand, the financial sustainability paradigm focuses subsidies on the distribution of information regarding microfinance best practices and on supporting the development of financially self-sufficient institutions (Robinson, 2001).

Individual institutions are then able to commercially finance their loan portfolios, earn profits on

interest rates from credit and savings accounts, and can multiply their outreach capacity by utilizing their extra capital (Robinson, 2001).

On the other hand, critics argue that the financial sustainability paradigm makes unjustifiable assumptions about the links between access to financial services and empowerment, especially in terms of women clientele. The financial sustainability approach also assumes that “increasing women’s access to financially sustainable microfinance programs will enable women to increase their incomes through micro-enterprise and that this will increase their control over income and resources” (Mayoux, 2002). These suppositions are assumed to occur without any explicit training or support to women borrowers, which is deemed nonsensical to proponents of both the poverty alleviation and the feminist empowerment paradigms.

Each of these paradigms offer important insights into creating a microfinance program that contributes both to financial self-sufficiency as well as poverty alleviation and empowerment. Though tensions exist between the paradigms and the promotion of financial self-sufficiency versus empowerment, it is becoming increasingly clear that there are more links between the two concepts than there are tensions. Evidence shows that a program designed without any consideration of empowerment has both negative effects on women, as well as negative effects on financial sustainability (Mayoux 1998, 1999). The combination of a program focused on large-scale outreach coupled with a deep commitment and sensitivity to empowerment and gender could be revolutionary in terms of power relations between the sexes in Nicaragua. Thus, a more strategic gender approach for empowerment and sustainability is necessary.

Bridging the Gap between Women's Empowerment and Financial Sustainability

The positive impact of microfinance on the livelihoods of poor women and their families in Nicaragua has been a giant step forward in the empowerment process there. Now that we have identified the benefits and possible limitations of microfinance as it relates to women's empowerment, there is a huge potential for partnership and increased social impact. Thus, we are faced with the challenge of creating a gender-focused approach that combines the sustainability of the existing microfinance institutions with strategies to empower women and improve their access to other valuable resources. This suggests a model that focuses on financial sustainability and efficiency while enabling women to access and control their loans in ways that allow them to achieve economic, social, political, and personal empowerment. Often times the tension between feminist critics and microfinance agencies is founded on the idea that the two concepts are focused on two fundamentally different paradigms, and thus, mutually exclusive. However, the well-balanced development of a sustainable microfinance institution (following the business model that has thus far been successful in Nicaragua) with an intentional focus on gender policies has potential to reconcile the three distinct paradigms for the benefit of all actors involved in the process.

A compromise of this nature must begin with an understanding of why microfinance is good for women, and why women are good for microfinance. I argue that gender equality is beneficial to all actors involved. Empowerment is about the process of fundamental change in power structures that allow women the ability to make decisions that affect their lives. Getting working capital into the hands of women often has an affect on women's empowerment, allowing them to achieve greater economic security and independence. However, often times, simply

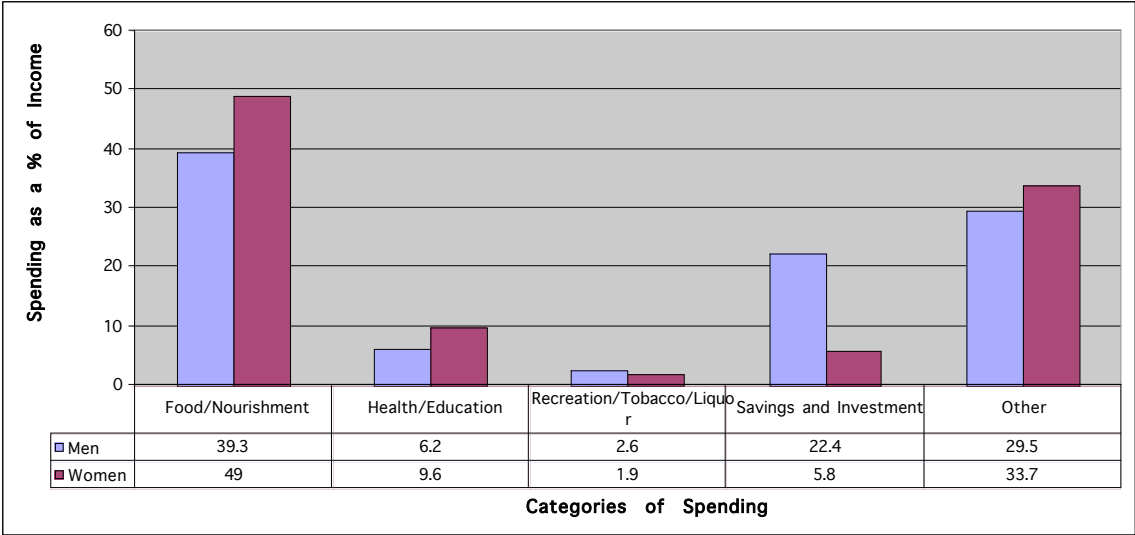
getting cash into the hands of women does not produce these desirable effects. There are many factors that may or may not contribute to the effectiveness of microfinance services in leading to empowerment. Some of these factors are linked to the personal and/or family lives of the women borrowers, some are linked to her individual situation and ability, and some are linked to the general environment and the status quo of women in her particular geographic region (Cheston & Kuhn, 2002). However, microfinance programs can have great success in empowering women as long as the products and services offered take each situation and circumstance in context.

While it is clear that microfinance has been a successful development tool for women in Nicaragua, it is also true that women have aided in the development of microfinance. In a country like Nicaragua where women play a crucial role in the economy, investing in low income women may serve as an effective means of achieving social and economic development goals (United Nations Expert Group on Women and Finance, 1995). Empirical evidence has shown that women are more secure credit risks than men, and low income entrepreneurs have more solid repayment records than do the clients of banks in the formal financial sector (United Nations Expert Group on Women and Finance, 1995). It is collective wisdom that women business owners have a low rate of business failure and low-income women generally have a low percentage of loan defaults (Cheston & Kuhn, 2002). Lower arrears and loan loss rates have a significant positive impact on both the sustainability and efficiency of the microfinance organizations that are working with women (Cheston & Kuhn, 2002).

In addition to the successful financial track record of low income women borrowers, women can be extremely helpful in helping microfinancial institutions reach their goals of making a substantial social impact while remaining financially sustainable. In Nicaragua, many

households are headed by and financially supported by women. Despite the fact that women make less money than men on average,¹¹ households are often dependent on the woman’s income. Thus the burden of family provision often falls on the woman. However, a study by FIDEG shows that women in Nicaragua place more importance on the health, sustainability, and education of their families (Fideg, 2001). Therefore, cash and assets in the hands of low income Nicaraguan women may be the most effective way to impact the feelings of confidence and empowerment among women while simultaneously allowing microfinance programs to reach their goals of social impact and sustainability (See Figure 7).

Figure 7: Spending Differentials between Nicaraguan Men and Women



Source: FIDEG 2001

¹¹ Based on all income generated by persons in Nicaragua, women make an average of 33 percent less than men (FIDEG, 2001).

With a common understanding of the mutual benefits of gender equality, both microfinance institutions and women's organizations have an important role in working to resolve the tensions between the paradigms of self-sustainable institutions and empowerment. In general, there are many microfinancial institutions that believe women's empowerment is an important goal. However, the actions taken that support that goal often demonstrate the low relative priority of that objective. Many institutions feel that they cannot afford to create and implement a gender approach to microfinance. They feel that it detracts from the core goals of remaining financially self-sustainable and providing financial services to clients. Though there are trade-offs and expenses incurred by widening the range of financial services offered, there is abundant evidence of sustainable financial institutions that have been able to contribute to empowerment (Cheston & Kuhn, 2002).

Institutions committed to gender equality promote empowerment with different strategies. Some avoid additional services simply by intentionally focusing on customer service. These organizations place a high priority on respect for clients, from employees at all levels of the organization. Other organizations are able to emphasize the importance of women in leadership and planning roles within the organization (Cheston & Kuhn, 2002). Thus, neither the business focus nor the outputs of the organization has changed; however, the way in which staff is hired and organized sends a clear message about the importance and competence of a woman's role within the institution. With women in these leadership and planning roles, it is very likely that the organization will have a good understanding of and sensitivity to the appropriate financial products and services necessary to serve a female population. Lastly, there are organizations that focus on offering social services to build synergies between savings and credit

programs and meeting the physical needs of their clientele. These organizations often offer literacy programs, business training, general education, skills development, health services and education, and dialogues on social and political issues. While these services are more costly, and may involve more trade-offs in terms of the financial services these organizations are able to offer, they often have the greatest impact on women.

Depending on the context in which the microfinancial institution operates, offering various types of social services may be necessary to provide basic necessities to clients so that they may reach a level in which financial services are beneficial to them. Other organizations choose not to provide these services directly, but serve as advocates for them or are involved in creating solidarity groups of women to educate and involve themselves in the social and political discourses that have a potential to improve their status.

However, regardless of the institutional approach, there are clear links between empowerment and sustainability. Next, we examine some of the specific factors necessary to strengthen these bonds between empowerment and financial sustainability by presenting and promoting a broad-based strategy that emphasizes the goals and objectives of both microfinance programs and advocates for women's empowerment.

A Gender Strategy for Microfinance

For some of the reasons discussed above, it is clear the presumption that access to credit naturally leads to women's empowerment does not often hold true. First, it assumes that women who are able to access credit are also able to gain and maintain control of it. However, this is not often the case, especially in countries with a paternalistic cultural heritage. Second, there are additional disadvantages that women face including an inability to access information, productive

resources, and social networks that hinder their access to and control of resources (Mayoux, 2002). Therefore, microfinance programs must intentionally focus on an internal reorganization that prioritizes the role of the woman within the organization and the role of the woman in her community and family. Regardless of their approach to achieve the goal of gender equality and women's empowerment, microfinance institutions must keep in mind some generalized methodological considerations for designing a broad-based, gender-focused, and financially-sustainable microfinance program.

It is imperative that when a microfinance institution decides to take on a gender-based policy, they understand that the transformation involves more than just targeting women. Creating gender-based policies requires that the institution examine all internal and external policies and procedures from a gender perspective. This involves a process through which an institution reexamines all of the underlying structures and assumptions about gender roles, rights, and responsibilities that have historically discriminated against women as borrowers and employees (Mayoux, 2002). Mayoux (2002) uses the term "malestream policy" to describe the underlying structures present in the financial system that prohibit women from achieving true economic and financial independence and empowerment. These "malestream policies" put a substantial limitation on a woman's ability to equally access and benefit from financial programs and services. A common example of "malestream policy" occurs when a woman is required to have her loan application signed by her husband, even though a husband does not need his loan application signed by his wife, even when it is her property that he uses for collateral (Mayoux, 2002).

As a follow-up to the examination of underlying structures from a gender perspective, it is important for a microfinance institution to set guidelines pertaining to employee recruitment, promotion, roles, and responsibilities. Mayoux (2002) reports empirical evidence that points to a correlation between both women's empowerment and access to credit sources and levels of female staff.¹² Mayoux (2002) argues that "institutionalizing gender" will require strong commitment, ample resources, and may require fundamental changes in the organizational culture, internal procedures, and recruitment and hiring criteria. There is also a need for guidelines and incentives for the implementation of this gender-based policy. It is clear that these organizational changes will not be successful without flexibility, time, effort, capital, and presumably, conflict.¹³ However, by getting more women involved as both staff members and borrowers, there is a great potential for increased levels of economic empowerment and financial stability that will benefit both individual women, their families, their communities, and the institutions that they work for or borrow from.

Though specific strategies targeting women cannot be the only aspect of a gender policy, they are extremely important in the implementation of a broad-based strategy. The following is a discussion of some of the general considerations when designing targeted programs, followed by a list of specific recommendations, based on international successes, for institutions and donor agencies interested in creating a gender-based strategy.

¹² The low success level of the program AKRSP in Pakistan was ascribed to improper training and failure to employ female staff (Harper 1995). In addition, following ACORD-Sudan's reduction in female staff, there was a dramatic decrease in women's participation in the program (Stallard, 1996).

¹³ See Goetz 1992; Macdonald, Sprenger, Dubel, and Field 1998.

“Women often find it difficult to express their concern about harmful political and economic policies, much less discuss their consequences for gender and empowerment” (Vyas, 2002). Thus, a program must contribute to the self-esteem, confidence, and competency of female actors. These characteristics come as a result of a general education of the political and economic policies of the nation, as well as specific information about the policies of the institution or program they are involved in. In addition, all women involved in a program must be respected as equal actors with equal information, knowledge, and financial competency.

Second, as discussed above, there must be a strong female contingency in the leadership and planning roles of a microfinancial program. A gender-focused institution that does not include women in the creation, promotion, and execution of activities may reinforce the myth that women cannot handle positions of responsibility and reliability. Putting women in management positions is one way to break the cycle of “internalized oppression,” in which women fall subject to the belief that they are not capable of jobs traditionally held by men. Once women are made aware of the limitations that they put on themselves, they will be able to rise above and begin to transform cultural expectations. With proper education, increased self-esteem, and freedom to create programs and take actions based on their own analysis and priorities, women will have the confidence and ability to break traditional cycles of subordination and inherent cultural oppression.

Lastly, a microfinance program with a focus on gender must have an idea, founded on solid research and reliable personal information, of the financial services that will be most beneficial to women clientele. Research has shown that financial institutions that offer deposit services are very attractive to women (USAID, 1995). According to the statistical model used by

Sanders and Nusselder (2003) in determining credit demand, it happens that it is the households that have problems with liquidity (and a lack of alternatives to solve those problems) that are in most fire need of loans (Sanders & Nusselder, 2003). Further interpretation of these results may demonstrate not only a high demand for credit, but also a demand for savings services. Access to a savings account could alleviate some of the liquidity problems present in many other forms of informal savings, and may effectively encourage poor women to save for productive long term investments that may be more effective in terms of future stability.

If a gender-focused organization is aiming to meet the preferences and needs of its clients, savings services must be an integral component of its program. Since women often make financial security, safety, and provision priorities in their households, there is great potential for savings programs targeted at women to foster economic empowerment (United Nations Expert Group on Women and Finance, 1995). In addition, savings mobilization by financial institutions may be used as a source of loan funds and income from investments, which can make a significant contribution to the financial sustainability of the institution (Robinson, 2001).

An example of a successful savings program is that of SEWA Bank in India. The key objective of the SEWA Bank is to “help poor women reverse the process of decapitalization at the micro-level and to begin the process of capitalization” (Vyas, 2002). The Bank provides financial services such as savings, insurance, and credit in order to help women: get out of informal savings arrangements with moneylenders; create their own asset base and gain complete control of resources; expand their enterprises through credit access; cope with economic shocks that result from sickness, death, accidents, and acts of nature; increase their bargaining power within her community and household; improve the living conditions of her family; and create

economic, social, and emotional empowerment (Vyas, 2002). SEWA Bank recognizes a woman's need for different types of financial products throughout her life, and designs services that make it easy and beneficial for a woman to deal with a bank.

SEWA bank directly offers savings, credit, insurance, and financial advising services to its clients. However, they also encourage other support services such as remedial training, health care, child care, marketing, legal counsel, literacy programming, business development, and other technical services through community partnerships with these types of programs. While SEWA Bank believes that all of these services are necessary to the ultimate empowerment of the female population, after 20 years of experience working with low-income women, they have created an approach that focuses on meeting the particular needs of each woman, and draws on her individual abilities. The cornerstone of that approach is savings.

The SEWA Bank uses savings services as the key financial product to help low-income women gain access to and retain control of resources earned, and sees it as vital to future planning. Low-income women feel that they need to "hide" their meager earnings to keep them safe and retain control of them, but often have no accessible or affordable place to deposit their money. Like in Nicaragua, banks require minimum deposits that are far higher than the small amounts that microentrepreneurs can afford to invest and maintain in an account.¹⁴ Therefore, women are often driven to informal savings mechanisms that put them in danger of theft, illiquidity, and financial insecurity. By offering savings services, microfinance institutions are

¹⁴ The six banks in Nicaragua have a minimum deposit limit of \$100 (US), and charge monthly fees for dropping below a minimum balance. With the unpredictable nature of women's work, setting up a formal bank account is not even a viable option.

able to provide a number of important benefits to the poor, and specifically to women (Vyas, 2002):

- Mechanism for building financial discipline which can result in increased repayment rates
- Expands the options for financial services, allowing women to choose the resource that is most beneficial to her and her family
- Creates an asset (bank account) that may improve the economic status of the woman in her household or her community
- Gives a woman the ability to prove her financial stability and obtain loans without a large amount of collateral
- Gives her control of the creation, maintenance, and earnings of her business
- Creates a safety net or a form of security for times of need such as sickness, death, or natural disaster.

Consistent with SEWA Bank's experiences that support the theory of the importance of savings programs, all bank transactions begin with savings. Women are encouraged to save as much as they can and still maintain a sustainable lifestyle for their families. SEWA Bank creates the opportunity to save, as well as the facilities and technical assistance necessary to do so. Savings accounts can later be used as "collateral," whereas women who have a history of regular savings are deemed eligible for a credit loan (Vyas, 2002). The SEWA Bank encourages both the group savings (in rural areas) and the individual savings (in urban areas) approaches. In some rural areas, women create their own collective savings groups, designate a group leader who maintains contact with the bank, and serve as a support network for one another. Initially, the bank employees and field workers come around to collect deposits. But as the group gets more sophisticated in its managerial procedures, the group leader goes to the bank to make regular deposits. These groups also have the opportunity to gain training in banking procedures such as keeping records in an account passbook (Vyas, 2002).

The success of the SEWA Bank is a combination of factors, including its ability to mobilize savings among poor women as a starting point for their journey to financial maturation and economic empowerment. Savings allows women to take control of her assets, and set them aside in a place that she feels is safe and profitable. In addition to financial security, savings also provides women with a feeling of self-sustainability and security, which give her the sense that she can provide for and protect her family from any economic, social, or natural shocks that occur. This feeling of sustainability plays a large role in decreasing a woman's stress level and increasing her ability to think about long term investments in education, health care, and production.

Recommendations for Microfinance Insititutions

With all of these important considerations in mind, the following is a list of recommendations for a successful microfinance program that is focused on gender:

- Research and gather information that is relevant to the needs and wants of women clientele. Design products, programs, and services that are compliant or specifically meet those needs. (Rationale: Feelings of respect, importance, and self-esteem. Also meeting physical, social and economic needs).
- Create programs to educate and train women about financial services and products. For example: business training, accounting, bookkeeping, and cost calculations.
- General and remedial education programs: health, skills development, literacy, and simple mathematics.
- Expand services (not just credit, but savings, health insurance, social benefits, etc.)
- Leadership/decision-making training and promotion
- Track empowerment benefits (social impact) with specific indicators along with financial performance and economic impact.

- Infiltrate organizational policies and procedures with women’s perspectives on governance, management, and implementation of microfinance programs.
- Review human resources and other organizational policies to ensure gender sensitivity through specific data collection
- Male education and awareness about gender differences and the importance of women’s empowerment in the home and community.
- Lessons on balancing family and business. For example: time management and budgeting, “managing” your husband
- Awareness of social, political, and economic issues
- Personal development training such as courses in public speaking, communication, negotiations, interviewing, etc.

Recommendations for Donors (Cheston and Kuhn, 2002):

With all of these important considerations in mind, the following is a list of recommendations for a donor seeking a successful microfinance program that is focused on gender. Look for institutions that:

- Have holistic approaches to microfinance and are committed to innovation, research, and continuous development.
- Conduct and support research on best practices in women’s empowerment.
- Promote and encourage women’s leadership in the MFIs.
- Consider empowerment impacts when evaluating agency and service modifications.

Donor agencies can also encourage MFIs to create a monitoring system for empowerment with available data. Or, the donor agencies may choose to do this themselves as part of a due diligence report. Potential data may include:

- Number of women borrowers
- Number of women on staff and their roles
- Social programs available to women
- Personal interviews on treatment of clientele or survey/questionnaire for all borrowers
- Impact of service on domestic violence
- Impact of service on decision-making

- Impact of service on self-confidence
- Impact of service on status in the home
- Impact of service on family relationships
- Impact of service on status in the community
- Impact of service on political empowerment and women's rights

Legal Limitations and Future Prospects

Limitations to the Mobilization of Savings

Despite the aforementioned positive impacts savings mobilization can have on low income women, due to unfortunate government restrictions, savings services in Nicaragua are rare outside of the formal financial sector. However, the overwhelming need of the population to build their financial asset base demonstrates the urgency for a new approach to financial development in Nicaragua. Thus, there are substantial incentives to work through the political, institutional, and regulatory obstacles in order to reach more people, better serve and empower the female population, and create an environment of sustainable development for the Nicaraguan economy through the mobilization of savings.

Today, the majority of Nicaragua's poor do not have access to the formal financial sector. Therefore, they are often forced to use informal savings methods, if they are able to save at all. These forms of savings include but are not limited to: a stash of money hidden somewhere in the home; the purchases of grain and other cash crops, livestock and animals, land, gold and other valuables, raw materials and finished goods, construction materials; and lending to others in cash or in kind. While these are the only forms of savings available to much of the Nicaraguan population, many of these informal savings techniques are extremely dangerous. Savings in these forms are subject to theft, insecurity, storage problems, titling problems, liquidity obstacles, quality deterioration, and devaluation, not to mention the illiquidity of many of these savings

strategies (Robinson, 2001). These collective forms of savings also present a disadvantage to many Nicaraguan women, who have little (if any at all) control over family resources. Typically, the control of assets within households is strongly dominated by males. Formal savings mechanisms would be beneficial to society by providing the poor with an ability to take control of their future production and consumption curves, the ability to easily access their savings accounts (liquidity), and the ability to have confidence in the security of their investments. The onset of formal financial savings services would also be specifically beneficial to women by allowing them control of resources and would provide them with a sense of social agency in both their homes and communities.

In Nicaragua, however, formal savings mechanisms are scarce and often limited to the formal financial sector. There is little to no financial supervision for microfinance institutions that are not a part of the formal financial sector, but that have the greatest reach among the poor. In addition, there are strict controls on many of the microfinance institutions that are nongovernmental organizations. Nusselder (2003) says that “the fundamental purpose of the financial regulation is to promote an effective and efficient accumulation of capital and assignment of resources, while maintaining the security and soundness of the financial institutions that capture deposits from the public.” Lack of regulation in the microfinance industry is one major obstacle to its growth and maturation in Nicaragua. In order to attract private capital, accept savings deposits, and have a greater overall social impact on poverty alleviation, microfinancial institutions must be regulated and supervised by some governing entity, as described in Appendix 1 (Sanders & Nusselder, 2003).

“Regulation refers to the set of rules used by the State, through the use of its coercive powers, to restrict the actions of participants in the financial markets” (Nusselder, 2003 & Gonzalez Vega, 2001). Regulation creates a framework of rules that actors in the financial system must abide by. The term supervision, on the other hand, refers to the formal mechanisms the State uses to actively monitor and enforce the rules in terms of financial business that occurs within the system (Nusselder, 2003). Governments, donors, supervisors, international governmental organizations, and development NGOs all have a stake in the future of microfinance regulation. Regulation is a complex issue due to wide variation in financial situations and due to the mixed motivations of the players involved. Overall, both governments and MFIs agree that a regulatory/supervisory framework is necessary to the creation of sustainability in the microfinance sector.

The goals of regulation and supervision were designed to protect both the State, the financial institutions within the State, and the clients of financial institutions. The key objective of regulation is to protect the financial system itself from excessively risky practices (Nusselder, 2003). Another goal of regulation is to protect individual borrowers and depositors, as they are generally unaware of the financial risks undertaken by the financial institutions they invest in or borrow from. Lastly, regulation aims to uphold the competitiveness of the financial sector (Nusselder, 2003).

Regulation of the formal financial sector in Nicaragua is carried out by the Superintendencia. However, this body is extremely limited in that it cannot oversee microfinancial institutions as long as there is no legislation governing their supervision or regulation (Sanders & Nusselder, 2003). Although they have existed since the early 1990s in

Nicaragua, MFIs have not yet been recognized in the legal framework of the financial system. In order to offer more financial services (such as savings services) that can better serve the general, and specifically the female, populations, microfinance organizations must continue to advocate for national regulation through organizations such as ASOMIF.

The Future of Regulation and Savings Mobilization

Over the past decade, there have been many discussions in Nicaragua at both the local and national levels regarding regulation and supervision of microfinance. The most recent activity has taken place around ASOMIF's recent proposal which came in the form of the Ley de Microfinancieras [Bill for the Promotion and Regulation of Microfinance]. The proposed bill deals with many of the aforementioned issues that surround regulation of MFIs, including: organization, registration, and operation of non-profit NGOs that serve the financial needs of the Nicaraguan population (Nusselder, 2003). The Bill excludes formal financial corporations from being categorized as actors in the sector (Article 1), and establishes a minimum entry level portfolio amount of \$170,000 (USD) to be considered a fully-functional MFI (Nusselder, 2003). The bill also requires that equity reserves be provided for by an institution's net surplus, since "microfinance institutions will not be allowed to distribute surpluses among associates, directors, employees, or third parties, and shall invest all of them in activities that fit the purposes of the institution" (Article 9).

The proposed bill is popular with MFIs, as it allows them greater freedom to "award loans, accept bills of exchange, grant fiduciary guarantees, carry out investments, perform discounts, perform factoring and financial leasing, and act as fund managers on behalf of third parties" (Nusselder, 2003). The bill, as written, would also allow MFIs to offer loans for up to

5% of their equity, and would re-establish the interest rate by allowing MFIs the ability to “freely agree upon interest rates” (Article 46, The Banking Law). The bill would allow MFIs access to national second-tier credit funds and special social programs, and lastly, the proposed bill would allow MFIs the ability to accept and hold fixed term savings deposits from their clients, under conditions approved by the Superintendencia (Nusselder, 2003). The passage of this bill in the National Assembly of Nicaragua, would, however, create the need for extensive reorganizing of the current financial regulatory structures.¹⁵ That, among other concerns, has been a factor in the slow process of deliberation and debate on the issue in general.

As can be expected with a law that has potentially sweeping consequences for the financial sector of an entire country, there are several fundamental questions surrounding the Bill of Microfinances. It is clear that the adoption of the Bill of Microfinances would contribute to increased public awareness and recognition of MFIs throughout Nicaragua. There would be a gradual closing of the gap between regulated and non-regulated institutions, increased competition in the financial sector, and a dramatic increase in the formal savings rate among the Nicaraguan population. However, there is a substantial list of concerns from all actors involved surrounding the bill. First, there is concern that since the law reserves supervision for non-profit entities, there will be a fragmented microfinance industry that separates banks, financial institutions, credit unions, cooperatives, and other MFIs, creating an uneven playing field for all actors.

Another concern is the role of ASOMIF, and the possibility of a conflict of interests. On the one

¹⁵ A Microfinance Regulating Committee would need to be established as a branch of the Superintendencia. The committee would consist of one member from the Superintendencia, one representative of non-profit MFIs (ASOMIF), and one member from the Ministry of Industry (MIFIC). The committee would be responsible for the Registry of MFIs, and would approve non-prudential rules that would apply to all institutions (Article 24). In

hand, ASOMIF acts as an interest group, protecting the rights and interests of its members. On the other hand, it would be responsible for overseeing and supervising member operations (Nusselder, 2003). There is also concern surrounding the future actions of MFIs that continue to provide financial services without being formally registered or licensed. If there is no room for them in the sector, then a sector-wide strategic plan is necessary to arrange their exit from the industry, or to organize mergers between MFIs. Along these lines, the creation of clear transitional policies is also necessary to ensure that existing MFIs understand the steps involved in becoming registered and licensed. Lastly, the issue of savings mobilization has been a major topic of discussion around this bill. MFIs are strongly in support of accepting deposits, which can provide a steady source for a stable loan fund. However, there are many concerns from the formal financial sector that allowing MFIs to collect deposits will create too much competition for Nicaragua's six formal banks.

The previous discussion provides insight into a small portion of the concerns surrounding the Bill of Microfinance in Nicaragua. Though the discussions in the National Assembly have been postponed temporarily at the request of the World Bank (they are investigating the impact that the bill will have on different interests within the country), the debate continues. From the perspective of gender equality, this bill has the potential to vastly improve women's empowerment strategies over time through the mobilization of savings. As discussed previously, savings mobilization has the potential to give women both access and control over their resources, investments, and long-term planning schemes. The extensive debate and discussion

addition, the committee would be responsible for the regulations regarding a supervisory system that would assign an audit firm to carry out periodic external and internal inspections of the MFI (Nusselder, 2003).

gives Nicaraguans a glimpse into the future of microfinance, and creates hope for the use of microfinance as a successful national development tool. Through regulation and supervision of microfinance, Nicaragua has the opportunity to indirectly promote and support economic, political, social, and personal empowerment for its male and female populations alike.

Conclusion

The discouraging and staggering statistics about Nicaragua's status in the international system can potentially paint a picture of a dismal future for the Nicaraguan economy and financial markets operating there. Or, they can serve as motivation for new attempts at economic development policies and financial reforms in the country. Due to high levels of inequality, a large informal sector, and a limited network of formal financial institutions, Nicaragua is an environment ripe with potential for great success of the microfinance industry in promoting economic development and implementing poverty alleviation strategies. Nicaragua also has a unique opportunity to use microfinance as an avenue to promote gender equality and social, political, and economic empowerment of rural women.

The degree to which one or two microfinance institutions in Nicaragua can make a substantial change in gender relations is quite limited. There is a need for cooperation and a common commitment by women's organizations, microfinance organizations, donor agencies, and the public to make a successful change in the structures underlying a traditionally "malestream" society. Mutual reinforcement and work toward a common goal is vital as each institution has specific resources to contribute. Microfinance institutions and women's organizations can all be successful, as defined by their own organizational goals. For example, women's organizations can

promote solidarity and empowerment, financial institutions can promote self-sustainability, and donor agencies can meet their goals of creating a social impact with their available resources.

Recognizing that there are macro-level constraints to empowerment, microfinance institutions just contribute in one way to gender empowerment in Nicaragua. However, in cooperation with donor agencies and strong and influential women's groups, microfinancial institutions have the potential to send Nicaragua well on its way to the creation of gender equality, empowerment, and sustainable financial institutions that could have a great social impact and contribute to poverty alleviation throughout the country.

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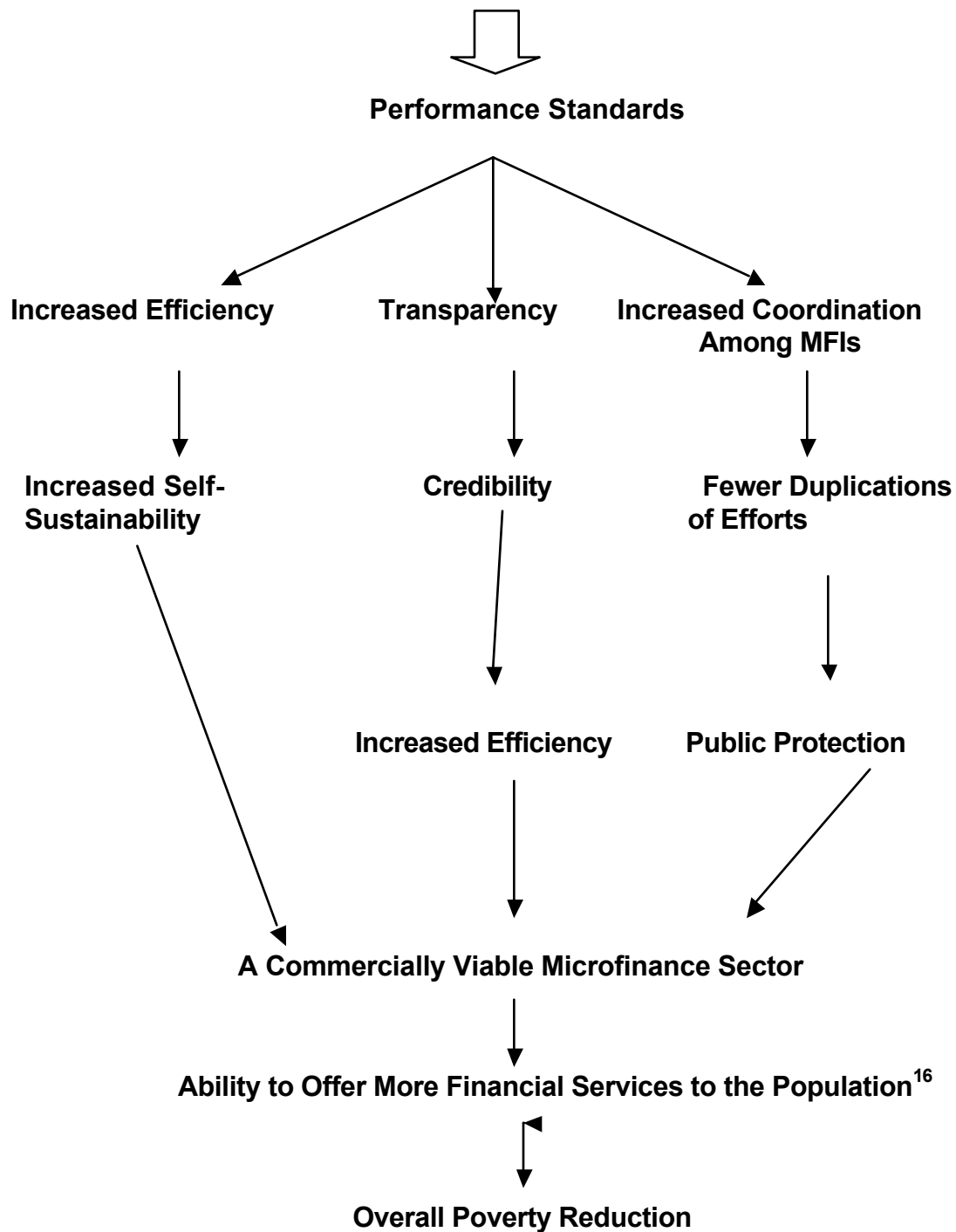
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Appendix 1: Regulating Microfinance Institutions



¹⁶ See Appendix 2 for more detail on this step

Appendix 2: Benefits of Increased Access to Financial Services

Financial Service	Economic Results	Social Impacts
<i>Acceptance of Savings</i>	<ul style="list-style-type: none"> • Earned income from savings • Capacity for future self-investments • Enables consumption smoothing • Ability to face external shocks • Decreased need to borrow money from informal sources at high interest rates • Encourages purchase of productive assets • Improved/balanced allocation of resources • Increased economic opportunities and growth 	<ul style="list-style-type: none"> • Reduced vulnerability due to natural and external shocks • Household consumption more predictable • Higher earned income from interest rates • Feelings of the severity of poverty and desperation reduced • Reduced social exclusion due to improved living conditions and quality of life • Social, political, and economic empowerment • Potential increase in well-being of women •
<i>Credit Availability</i>	<ul style="list-style-type: none"> • • Encourages profitable investment opportunities • Encourages entrepreneurship • Adoption of better technology • Expansion of existing micro-enterprises • Promotes safe risk-taking • Enables consumption smoothing • Reduces dependence on informal money sources • Diversification of household economic activities 	<ul style="list-style-type: none"> • • Higher household income • More diversified income sources • More predictable income • Better educational opportunities for children • Reduced severity of poverty • Reduced social exclusion • Social, political, economic, and personal empowerment •
<i>Insurance Services</i>	<ul style="list-style-type: none"> • • More financial assets saved • Reduced risks and losses • Increased investments • Reduced distress from unpredictable shocks 	<ul style="list-style-type: none"> • • Less volatile consumption patterns • Greater income due to more investments • Greater personal and economic security •
<i>Payments/Money Transfers</i>	<ul style="list-style-type: none"> • • Facilitates more open trade and investments 	<ul style="list-style-type: none"> • Greater income, cash mobility • Higher overall consumption

Source: Asian Development Bank Website