Modest Loans Leading to Monumental Change: The Promise of Microcredit as a Development Tool in Nicaragua

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Nicaragua is in need of a development policy that can simultaneously facilitate equitable growth and work to alleviate poverty. This paper will synthesize journal articles and show that past policies (such as export promotion, import substitution industrialization, and structural adjustment and stabilization pursued through the Washington Consensus) have focused on growth and output, but neglected income inequality and poverty reduction in the region. Such policies caused a short-term austerity that led to human suffering and may not have been necessary to build growth. Microeconomic policies may provide useful alternatives to the macroeconomic austerity programs. The microeconomic policy examined as an option in this paper is that of using microcredit to fund microenterprise.

INTRODUCTION

Microcredit, as referred to in this paper, is a small loan given to small-scale entrepreneurs (usually of the poorer percentiles) who might not normally have access to credit. The loans are used to fund microenterprise projects. For example, microcredit may be used to purchase a single sewing machine that enables the buyer to sew and sell small items, earning money to use in future investment or consumption.

Those in poverty argue that they are constrained by a lack of credit and access to money. Microenterprise development has been found in many cases to be an empowering tool that gives the poor access to credit and, on a wider scale, yields greater and more equitable growth. Microcredit given to women who participate in income-generating activities has spillover effects upon education, nutrition, and health, showing promise in increasing human and social capital and lessening inequality in Nicaragua and other countries in the region.

Microenterprise may be a good complement, or even alternative, to macroeconomic stabilization measures in which there is no safety net for the poor. This mechanism promises to increase human and social capital, lessen inequality, and thus encourage sustainable growth in the region.

INCOME INEQUALITY

Being the second-most poor nation in the western hemisphere (second to Haiti), Nicaragua clearly battles with problems of economic underdevelopment and poverty. Additionally, it is plagued by inequality—an inequality that is often exacerbated by the very growth policies that intend to bring economic development (Franko 1999, 354). Currently, Nicaragua is classified as a Latin American country having “Moderate to High Inequality”, with the top 10 percent of the population consuming 48.8 percent of the country’s resources (World Bank 2001, 70-72). The Gini coefficient is one measure of the income inequality in a country, with a coefficient of 100 reflecting perfect inequality and a coefficient of 0 reflecting perfect equality. In 1998, Nicaragua had a 60.3 GINI coefficient (United Nations Development Programme 2003).

Furthermore, the income gap—a measure of the depth of poverty a nation faces—is wide in Nicaragua. Nicaragua ranks 122nd among 173 countries in GDP per capita levels (UNDP, 2003). It is among the lowest ranking Latin American countries that are Less Developed Countries (LDCs). While this measure accurately reflects a low average level of output in the country, it still underestimates the degree of poverty (as indicated by low earnings) among the poor in Nicaragua. Because of the extreme inequality in the country, GDP per capita reports are positively skewed, brought up by the extremely high earnings of the wealthy few (Franko 1999, 316).

Furthermore, Nicaragua is truly in a state of human capital crisis. Human capital refers to items such as education, workplace training and skills, health, and other investments that increase worker productivity. According to economic theory, human capital should also increase the worker’s wages...
(increased compensation for increased productivity and output). As of 1997, Nicaragua was the lowest ranking country in Latin America on the United Nation's Human Development Index (HDI), a measure of literacy, life expectancy rates, and income. Both variables are a partial measure of human capital and thus, might indirectly indicate opportunities for bridging the income gap. Nicaragua ranks among the lowest of all Latin American countries in both areas, with especially high child mortality (Franco 1999, 355-56). To compare its performance with that of the rest of the world, it ranks 118 out of 173 countries, with 1 being the nation with the highest and 173 being the lowest ranking country by measures of human development (UNDP, 2003).

**Gender Inequality and the Feminization of Poverty in Nicaragua**

Gender inequality of income, roles, and access to resources all contribute to the feminization of poverty in Nicaragua. The longer hours that women typically work do not constitute additional income for the household due to gender-based discrimination in wages and women's lack of control over capital and resources that might increase their income (Joeke 1999, 55). Specifically, women tend to have little access to education (Franco 1999), property, capital, skills, and transportation – prerequisites to increasing income levels. Though the woman's income is stagnated or worsened by her lack of command over resources or capital, it is usually most vital to the family's well being. This is because women are more likely than men to spend their income on family nutrition, health, and (when possible) educational needs (Tinker 2000, 229). Thus, if we wish to lessen the burden of families in poverty, it would be wise to consider investigating ways to increase the earnings and income of those women whose families fall below poverty indicators. Ways in which microcredit can address these issues will be discussed throughout this paper.

**The Roots of Inequality and Poverty in Latin America**

**An Early History of Inequality: The Encomienda and Latifundia Systems**

The Latin American region has had a history of inequality with roots that reach back over 500 years to the Spanish corporatist structure. This was a social institution in which power and economic resources in Spain were distributed by a system of social hierarchy, with the most power and resources allotted to, and controlled by, those in the more elite (usually landowning) classes. When the Spaniards arrived in Latin America, they inherited this institution early in the form of the encomienda system, and later as the latifundia system. Under the encomienda system, Spaniards who arrived in the Americas would be granted the right to enslave the indigenous peoples to work their land. Over time, this system evolved into the latifundia system, where landowners acquired feudal estates and still employed indigenous labor, but also created political, social, and economic power structures based upon that hierarchy. These institutions laid the beginning foundation of a highly segmented and unequal society in which a few elites held vast tracts of land, resources, and power. This same institution of inequality persisted despite the many policies made to address economic underdevelopment in later centuries (Skidmore and Smith 2001, 324; Franco 1999, 36-37).

**The Vicious Cycle of Poverty and Inequality**

Since the latter 1800's a handful of serious policies have been implemented with the goal of addressing economic underdevelopment. Unfortunately, many focused on increasing exports, reducing debt, attracting foreign investment or so on, while neglecting to sufficiently consider the historical roots and strong institutionalization of inequality and its effects upon the macroeconomy. While the policies were well-meaning and focused, they arguably would have been stronger had they worked to ameliorate the inequality and poverty problem more. This report will now discuss the vicious cycle of poverty and inequality, and the influence of past policies on this cycle.

**A History of Past Macroeconomic Policies**

Export Promotion and Dutch Disease. First, as is illustrated in Diagram 1, a history of high inequality and low income begins the cycle toward poverty. Note that the high income gap also reflects a highly disproportionate distribution of resources, with the poor majority having few resources and low human capital. The low income of the majority of the nation results in low consumption spending and little savings available for investment. The domestic market is simply unable to absorb the goods produced. With little domestic demand available to spur production, those rich few that do have the money to invest, usually find the domestic market too risky and are more likely to invest abroad in ventures with higher payoffs. This contributes to capital flight out of the country. Thus, even the rich minority’s savings are not available for domestic investment in local firms or infrastructure. This results in cutbacks in production and increased unemployment. Without significant demand from its domestic market, Nicaragua (and many other Latin American nations) looked to foreign market demand for their products and pursued export promotion (labeled EP in the diagram) vigorously.

For a time, during the “golden age of primary product exports” in the late 1800s and early 1900s, the export promotion proved profitable (Franco 1999, 37). Yet in this process, Nicaragua became dependent on the risky international pricing of its Primary Product Exports (PPEs) – bananas and coffee. This left Nicaragua vulnerable to external shocks. Furthermore capital or infrastructure built during this time was not generally useful for economic development, but only
to further the export industries. In other words, the development that occurred under export promotion policy was generally unsustainable.

Over time, Nicaragua experienced declining terms of trade in the PPEs. The profit from the export of the PPE was not enough to sustain the terms of trade balance, meaning the country had to import more and more (Skidmore and Smith 1997, 330-31). This was particularly visible throughout 1929 and 1930, when coffee prices dropped 40 percent (Franko 1999, 39).

When a country plays the “commodity lottery” (Franko 1999, 37) – putting their main economic effort behind the export of a PPE – they run the risk of losing. Upon “losing” the commodity lottery, a nation experiences the effects of the Dutch Disease. The Dutch Disease (referring to Holland’s experience with natural gas) refers to the unbalanced development that occurs when a country concentrates its financial resources into a few profitable sectors, while ignoring other sectors or infrastructure.

Nicaragua’s Dutch Disease centered around its promotion of coffee (which accounted for 47 percent of total exports in 1938). Rather than investing resources and/or finances in infrastructure, human capital development, or in diversified exports, Nicaragua devoted the majority of her resources to coffee and bananas. Most growth from the export promotion policy was unsustainable, and unequally distributed (with the most benefit being accrued by the few elites who owned the coffee and banana plantations). When international prices fell, Nicaragua did not have the financial infrastructure, safety net, resources, or other trade activities to fall back on. It began to dirty its hands with a national debt that import substitution industrialization would try to correct, but would only amplify.

Import Substitution Industrialization (ISI). In an attempt to distance itself from the external shocks (like the Depression) that export promotion made them vulnerable to, many Latin American countries pursued a policy of Import Substitution Industrialization (ISI) in the post-war years. This policy substituted imports with domestically produced goods. However, with inequality still persistent in the region and the majority of the incomes low, the internal market for the domestically produced goods was still small and unable to absorb the supply.

While trying to address growth, some assert that ISI actually aggravated inequality in the region (Franko 1999, 67). The argument follows that elites in political power were able to subsidize industries (which hurt agriculture indirectly), bettering the welfare of industry owners. The system was very prone to corruption. Other flaws in the system were that it placed extreme reliance on foreign capital and international finance. It also had inflationary effects, and led to an accumulation of foreign debt (Franko 1999, 67).

Debt crises motivate macroeconomic stabilization. Borrowing to finance ISI was the first sign of an impending debt trap in Nicaragua and other Latin American Nations. Debt traps occur when unproductive investments or investments with long time horizons fail to generate revenue needed to pay off the debt by the payment deadline.

Hoping to boost the economy through foreign investment (which is often very sensitive to a nation’s foreign, or external, debt) Nicaragua decided to battle its debt by following austerity methods. To even gain IMF loans with which to rollover immediate loans coming due, Nicaragua was forced to continue its macroeconomic stabilization program (MS). Washington-based institutions, such as the IMF and World Bank, at the time gave Latin American countries policy advice that often had to be met for aid or loan disbursement. The austerity and macrostabilization policies they stressed were fiscal discipline, privatization, trade liberalization, and deregulation. This is often referred to as the “Washington Consensus” on the way to approach development.

In order to reduce spending and meet the macroeconomic stabilization requirements, there were cutbacks in social programs and social safety nets. This created a heavy package specially-fitted to the backs of the poor. The wealthy elites
had high incomes and savings with which to continue investing in education, healthcare, and other measures. Yet, the rising number of those in extreme poverty were left with choices that disallowed sufficient nutrition, education, or healthcare. With little human capital to offer, the likelihood that these poor would be unemployed rose. The cycle of inequality and poverty continued.

While IMF policies such as the Washington Consensus insisted on cutting spending, the poor bore the brunt of the country’s economic ills. Joseph Stiglitz, in Globalization and Its Discontents points out that the consequent suffering of the poor (as a result of the financial austerity measures) was unnecessary in the quest for macroeconomic growth. When the poor are actually a majority of the population, he argues, such measures may not only prove inhumane, but dangerous to long-term growth by restraining domestic consumption and aggregate demand (Stiglitz 2002). As aggregate demand decreases, businesses cannot continue to produce and employ at the same levels.

Many Nicaraguans have increasingly migrated to the capital city of Managua in search of employment. Yet even as the industrial and commercial heart of the country, the formal urban economy in Managua cannot absorb the labor force, and families are increasingly turning to informal employment. Nicaragua has the largest percentage of the economically active (urban) population in the region, at 47.7 percent (Sainz and Larin 1994, 436).

The social spending cuts, unemployment, and other macroeconomic effects associated with the structural adjustment are reported by Witness for Peace, Nicaragua (WFP 2000):

- Spending on education fell from $40 per capita in the 1980s to $9 today.
- Illiteracy rose from 18 percent in 1990 to 34 percent in 2000, and 46 percent in rural areas.
- Spending on health fell from $35-40 per Nicaraguan in the 1980s to $13 today, and is now the lowest in Central America.
- Maternal mortality rates increased 53 percent from 1997 to 99.
- From 1990 to 1999 more than 140,000 government workers were fired because of budget cuts, affecting approximately 860,000 family members and other dependents.

To sum up, the age-old corporatist social system has persisted throughout the eras of export promotion, import substitution industrialization, debt crises, and the current obedience to Washington Consensus prescriptions, as demonstrated by the persistently high levels of inequality today and by the very fact that the policies and prescriptions have failed to address the growth-stagnating, poverty-producing inequality that persists in Nicaragua. The Inter-American Development Bank in 1997 noted that income disparities had not improved, and the unemployment rate had actually climbed to its highest levels since 1985 (Fidler 1997).

**Microenterprise and Macrostability**

Nicaragua’s economy calls for another solution to its inequality, poverty, unemployment and overall underdevelopment. Civil war, a ten-year economic blockade by the US, falling world prices for agriculture, and years in a debt trap have left the country one of the poorest in the world. While IMF policies such as the Washington Consensus insist on cutting spending, the poor bear the brunt of the country’s economic ills. However, Joseph Stiglitz, in Globalization and Its Discontents points out that the suffering of the poor (as a result of the financial austerity measures) is unnecessary in the quest for macroeconomic growth. When the poor are actually a majority of the population, these measures may not only be inhumane, but dangerous to long-term growth by restraining domestic consumption and aggregate demand (Stiglitz 2002).

As aggregate demand goes down, businesses cannot continue to produce and employ at the same levels. Many Nicaraguans have increasingly migrated to the capital city of Managua in search of employment. Yet even as the industrial and commercial heart of the country, the formal urban economy in Managua cannot absorb the labor force, and families are increasingly turning to informal employment. Nicaragua has the largest percentage of the economically active (urban) population in the region, at 47.7 percent (Sainz and Larin 1994, 436).

While microenterprise does not reject orthodox macrostabilization techniques, it provides a pragmatic solution to human suffering and inequality. Microenterprise is offered, in this context, as an alternative or complementary approach to macrostabilization efforts – one that puts resources back into the hands of the poor at a time when the government cannot afford to do so. Used in combination with measures of fiscal responsibility, it may cut unnecessary burdens felt by the poor and multiply the positive effects of growth. Versluysen concurs that “being able to borrow can be a way out of the vicious circle of impoverishment, moving onto a virtuous circle in which they accumulate some working capital, expand their income-generating activities, and achieve some upward social mobility, one step at a time” (1999, 41).

In the case of Nicaragua, Van Hardy (1999) asserted that development methods pursued in the past failed to meet macroeconomic goals or to significantly decrease poverty rates. He advised that new methods be devised and utilized for development (in this instance following the devastation of Hurricane Mitch):

Foreign investment, IMF funding, and top-down redevelopement strategies won’t repair the damage done to the rural villages of Nicaragua. An inclusive development process

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evolved into the latifundia system, where landowners acquired feudal estates and still employed indigenous labor, but also created political, social, and economic power structures based upon that hierarchy. These institutions laid the beginning foundation of a highly segmented and unequal society in which a few elites held vast tracts of land, resources, and power. This same institution of inequality persisted despite the many policies made to address economic underdevelopment in later centuries (Skidmore and Smith 2001, 324; Franko 1999, 36-37).

THE VICIOUS CYCLE OF POVERTY AND INEQUALITY
Since the latter 1800’s a handful of serious policies have been implemented with the goal of addressing economic underdevelopment. Unfortunately, many focused on increasing exports, reducing debt, attracting foreign investment or so on, while neglecting to sufficiently consider the historical roots and strong institutionalization of inequality and its effects upon the macroeconomy. While the policies were well-meaning and focused, they arguably would have been stronger had they worked to ameliorate the inequality and poverty problem more. This report will now discuss the vicious cycle of poverty and inequality, and the influence of past policies on this cycle.

A HISTORY OF PAST MACROECONOMIC POLICIES
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focused on ... microcredit and debt relief appear to offer the best hope for victims of Hurricane Mitch and the international policies that compound its brutal effects (Hardy 1999, 31, italics added)

MICROENTERPRISE: WHAT IT LOOKS LIKE AND HOW IT WORKS

Microenterprise, as opposed to the policy measures discussed above, may be a reputable solution to the problems of inequality, poverty, unemployment and underdevelopment in the region. Furthermore, this pragmatic method works to promote equitable growth.

While the formal financial system favors large-scale borrowers, who are predominantly male (Joekes 1999, 55), microenterprise institutions give microcredit to women in poverty. Microcredit (also referred to in some literature as microfinance) around the world is usually disbursed through one of the five main types of institutions: commercial banks, non-governmental micro-credit networks, village banks, non-governmental organizations (NGOs) or poverty banks. These institutions usually lend through solidarity group lending and village banking mechanisms. In solidarity group lending, microcredit is allotted to groups of three to five people. Village banking is another form of microcredit disbursal in which 30 or more entrepreneurs participate and are held accountable for repayment. In both forms, members are responsible for each other's loan repayments in a sort of "character-based lending" in which peer-group pressure creates "moral collateral" for the loan (Versluysen 1999, 41). When loans are repaid on time, there is usually opportunity for increasing the amount of the next credit line.

The group lending model offers more than just credit. The interaction affords the entrepreneurs, who are often mostly women, the opportunity to network, develop leadership skills, and benefit from training provided by NGO representatives. Also, grouping the entrepreneurs in such a fashion allows them to benefit from economies of scale, lowered costs, and greater bargaining power (Goldmark 2001, 146).

Yet, Versluysen (1999, 37) argues that "lack of credit is but one of many constraints. The poor also lack endowment with land and productive assets, and have too few skills and too little education." In many cases, it is not solely the offering of credit, but the social aspects of these microcredit programs that make the difference (Tinker 2000, 239). In many cases the institutions are involved in efforts to create judicial, legal, social and other policies that will ensure that the money stays in the hands of the poor.

Social capital (skills or interactions among members of a society that increase overall productivity and may, indirectly, increase output and welfare) is built through business development services such as technology access, training, marketing assistance, business advice and mentoring, and information pertinent to the microenterprise.

EQUITABLE GROWTH THROUGH MICROENTERPRISE

Many argue that microenterprise can have positive effects on development and the macroeconomy, as well as the individuals that operate the microenterprise. In particular, FAMA (Foundation for the Support of Microenterprise) is a microfinance institution with the very mission to "contribute to the development of Nicaragua through the mass and efficient extension of financial and other services ... to microenterprise" (FAMA 2004). So promising has been the influence of microenterprise on growth and poverty reduction, that the United States has adopted it into some of its own domestic policies (Tinker 2000, 231). Diagram 2 shows how microenterprise can drive growth and development in an upward spiral, promoting equality and poverty alleviation.

Microcredit provided at reasonable rates (as opposed to the high interest pushed by local loan sharks) increases income and usually positively correlates with a family's increased ability to access education, healthcare, and other human capital investments. For the poor who feel the cuts in social programs and safety nets the greatest, this extra income is often the difference between "some or none" of these human capital-increasing investments. Moreover, "the benefits of self-reliance [in the form of microcredit] go deeper. Nutrition and hygiene standards usually improve in the households of women who belong to microfinance programs" (Versluysen 1999, x).
Furthermore, the authors of a study done in Bolivia argue that increasing borrower incomes may be linked to total poverty impact: "it may enable the borrower to hire additional workers, who if poor will cause the level of poverty to fall." Unemployment, then, is likely to fall as microcredit is disbursed and microenterprise development occurs.

Increased income from greater income and from human capital development, allows children to attend even more school and families to access even more healthcare. The added years of education and improved healthcare increase human capital and labor productivity, yielding greater income. This additional income in turn allows individuals to invest in more consumption and/or human capital, meaning more nutrition, education, and healthcare with which to fuel the cycle, lessening poverty and income inequality.

Human capital development will be increasingly more important to Nicaragua and other LDC's as we move into a more globalized world. Joekes (1999, 55) says of this imperative, "Globalization ... demands new skill types in the workforce." Such skills come from education - a luxury afforded only by extra income.

**Positive Effects of Microenterprise on Long-Term, Equitable Growth**

As illustrated by Diagram 2, increased income from microenterprise would likely contribute to a widening of the internal market through increased consumption. Raises in wages due to increased worker productivity would increase consumption and investment in human capital. Furthermore, the increased wages will broaden the tax base as microentrepreneurship becomes more formal and profitable. Investment in infrastructure, additional human capital, debt repayment, or other national projects yielding sustainable development (development that is not short term and will be as beneficial in the future as it is now) may be undertaken with the tax revenues. Increased domestic savings from greater income and tax revenue would lessen dependency on foreign investment. Nicaragua could lessen its debt burden and reduce need for seignorage (the printing of money to pay off a debt), thus decreasing inflation. Finally, the increased investment and human capital will lead to greater productivity and growth.

**Case Study: Sostenica**

The Sustainable Development Fund of Nicaragua (SOSTENICA) is a microfinance organization which has dedicated $300,000 in credit to a rural sustainable development program. They have targeted 20 rural communities to participate in their program, and over 369 people have benefited from it. An average of one new job is created for every $383 loaned. This year, the number of new work opportunities created by the credit totaled 230 - something vitally important in the face of Nicaragua's high unemployment rates. Borrowers also receive technical support and training, counseling on managing their funds and marketing their produce, and advice on production methods.

In 2002, accountant Steven Handzel attempted to track the impact of $5,000 disbursed by SOSTENICA on Nicaragua's development. A few hundred dollars disbursed bought a pump which allowed farming to continue over several acres deep into the dry seasons. Additional jobs were created in the farming, harvesting, and marketing of the product. Items brought to the market are often purchased and resold by merchants who used to travel as far as Honduras to purchase goods previously. Some of these merchants have used microcredit to strengthen their microenterprises, thus increasing the demand for the farmer's product year-round. Handzel marvels that "with loans of less than $800 a livelihood has been made possible for two families, and even employment for a third. Food is being grown and a small merchant economy is being established. But the cycle has only begun."

Grain purchased from the market is taken to mills to ground into meal to make bread and tortillas. SOSTENICA has given loans to many customers, in this case a 45-year old woman named Gregoria, to purchase and improve grain mills. With a loan of $428, Gregoria has purchased a mill and continues to serve her neighbors so they can feed their families and she, in turn, increases demand for other products. In order for Gregoria to operate her mill, she needs lighting and power. She purchases her lightbulbs from a local pulperia (shops run out of homes, usually by women). The woman in the pulperia received loans to buy products, such as the lightbulbs that Gregoria purchases. She uses her profits to support her family's several small purchases, and also to finance schooling. This is made possible with a $785 loan from SOSTENICA. Now, not only are jobs being created and GDP increasing, but human capital is being financed and sought after as well.

Gregoria might use part of her profits from the mill to buy traditional rocking chairs for her home. She goes to a woodworker (because there aren't any department stores outside of Managua) who in turn uses a loan of $1,000 to purchase tools and to employ five workers to manufacture the furniture. The woodworker then uses the funds to send her daughter to pursue a college degree in engineering for woodworking.

Handzel goes on to account for many other small businesses enhanced by microcredit from SOSTENICA. The pattern is clear: first, microcredit is given to those who typically cannot access funds; second, it is used to buy additional products or employ additional labor increasing productive demand; third, profit from the business and wages allow for increased consumption and investment in human capital such as education. Not only does this increase aggregate demand, it also dramatically increases the productive capability of the borrowers.

Handzel observed that for far less than $5,000 in loans—loans that would be repaid in less than a year and revolve through the community again—seven families were able to purchase the tools and raw materials to provide for themselves. Farmers were guaranteed a market to sell their produce.
in. Seven full time jobs were created for non-family members. Says Handzel, "In micro, we discover how a developing country begins to feed itself. . . . The multiplier effect of these loans . . . creates hundreds of jobs supporting thousands of people on the road to building a secure economy." By allowing the poor to build microenterprises and stimulate productive demand while providing for their own consumption, microcredit can clearly be seen to circumvent austerity while clearly on the path to economic growth and development.

SOSTENICA is not alone in providing microcredit to the poor. Many other NGOs, government agencies, member banks, and increasingly even commercial banks are also noticing the high repayment rates and sustainability (even profitability in some cases) of the microcredit program. The microcredit gives employment and hope to the poor during times of economic hardship and growth alike. The United States Agency for International Development (USAID) reports providing $120 million a year in microcredit programs. Where, in 1998, urban unemployment remained high at 12.2 percent (Franko 1999, 259), 9,000 Nicaraguan women have found meaningful employment through microcredit programs.

**QUESTIONS AND SUGGESTIONS FOR ADDITIONAL RESEARCH**

**THE PREREQUISITES OF MICROENTERPRISE**

Grosh and Somolekae assert that for micro and macro development efforts to work effectively, social, legal, and financial infrastructures are necessary. For microenterprise to have a strong influence on equitable growth it is likely that it must take place in a political environment of peace, where institutional infrastructure systems allow for some minimal level of technical education or training, from whence entrepreneurial ideas spring in the first place. Democratic governments that emphasize the freedom of the individual and that have stable legal, judicial, and banking institutions seem to be especially fit to mother microenterprise. This raises another question for future research, in regards to what level of state involvement is necessary to maintain an environment in which microenterprise can prosper. (Grosh and Somolekae 1996, 1887)

**THE POOR AND LAND RIGHTS: TWO CHALLENGES TO CONSIDER IN FUTURE RESEARCH**

Existing microfinance institutions need to address a few challenges to their influence in poverty alleviation. First, microcredit, which may not be used for expenditure on food or healthcare, may not assist the truly poor who cannot afford these basics, much less to take on microentrepreneurship (Joeke 1999, 55). Second, land rights must still be addressed, as many of the women who apply for the loans are disqualified because they do not hold titles to the land to which they wish to apply the funding. Land titles are not distributed to cultivators, but to registered households (and usually to the man who is considered the head of that household). This is a problem in Nicaragua, where only 20 percent of the dwellings are even considered adequate. In these situations, the poor (especially women) stand to benefit from state intervention policies.

**CONCLUSION**

This report argues that microenterprise should be considered as a legitimate way to alleviate poverty more immediately than past methods, because it leads to social development and a more equitable distribution of capital and income. This paper has argued that the microcredit given to fund microentrepreneurs is expected to be fruitful in increasing earnings—earnings that will be, in turn, invested in human capital such as education and healthcare. Armed with more human capital and potential productivity, laborers can now demand increases in income. In this way, microenterprise will promote more equitable growth in Nicaragua. Said best in the words of Ms. Silvio de Franco, former Nicaraguan Minister of the Economy, "Macroeconomic stabilization is not enough. Microenterprise has a tremendous impact in creating a more equitable society" (de Franco, 2000).

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