“In God We Trust”

A Qualitative Study of Church-Sponsored Microfinance at the Margins in Nicaragua

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Abstract: A qualitative study of CARITAS Matagalpa was undertaken in May 2003. CARITAS Matagalpa is a large, self-sustaining microfinance institution that is located in central Nicaragua and affiliated with Catholic Relief Services. In-depth interviews with 36 microentrepreneurs, all clients of CARITAS Matagalpa, reveal that access to microfinance has enabled these entrepreneurs to start, expand, and develop their enterprises. These interviews also reveal that access to microfinance has also enhanced the life chances of the microentrepreneurs' households. Additionally, multivariate statistical tests suggest the following: (1) Loan size is directly related to urban location and length of repayment period. (2) The degree of firm-level informality diminishes in urban areas and increases relative to the work experience of the microentrepreneur. (3) Income for self-employed microentrepreneurs is influenced by business sales volume, work experience, number of employees, and loan size.

Near the main plaza of the provincial town of Matagalpa, Nicaragua, a queue has formed at the cashier's window inside the diocesan church. Huddled together in line are poor men and women who are not in search of spiritual salvation, but economic salvation; they are waiting to make their monthly payment to CARITAS Matagalpa—a comprehensive and integrated microfinance organization that operates under the auspices of the Catholic Church. And out of envelopes, pouches, purses, and plastic bags tucked under their shirts or blouses, these entrepreneurs peacefully and nervously count and double-count wads of money that were contributed by members of their solidarity group. "Making payments" is a rite of passage in this capitalist (and financial) economic system; these payments indicate access to the capital market and to the opportunity of business formation, growth, and expansion. Most importantly, these small-time business debtors (loan cycles range from about U.S. $30 to U.S. $500) are self-employed men and women who are engaged in the operation of microenterprises and providing themselves with gainful employment and a way out of abject poverty.

Like many nongovernmental organizations throughout Latin America, CARITAS Matagalpa is part of a regional (and global) movement to assist the poor. Where governments have retreated and markets have failed, microfinance institutions (MFIs) have primarily attempted to improve the lot of informal sector participants, particularly focusing on women. For those individuals that the formal education system has passed by in the developing world, particularly within Central America, entrepreneurship is a legitimate avenue to enhance life choices. The assumption amongst microfinance practitioners is the positive externality of access to microfinance to the microenterprise and microentrepreneur's family: improved quality of life through increased business opportunities. This qualitative paper focuses on clients of one such microfinance institution sponsored by the Catholic Church in central Nicaragua—CARITAS Matagalpa—and studies the growing movement toward empowering the "least" able in developing societies to

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start and/or expand microenterprises as a policy tool in the fight against Third World poverty.

Through the use of qualitative research techniques, we seek to help move the field forward by attempting to address the following research question: “What is the client-level impact of MFIs on microenterprise development and poverty reduction?” Moreover, we seek to explore the nature, role, characteristics, and context of one such church-sponsored MFI, CARITAS Matagalpa (Nicaragua), in the investigative pursuit of the above research question, making this contribution unique to the growing microfinance literature. The remainder of the paper is organized as follows: section two reviews the pertinent literature; section three provides a discussion of Nicaragua’s economic and entrepreneurial environments as well as an overview of CARITAS Matagalpa; section four describes the methodology; section five presents the results; section six consists of a discussion of the results; and section seven offers a conclusion to the study.

Literature Review

Latin America has a relatively long tradition in the young field of microfinance,[1] beginning with the work of Acción International in Brazil in the early 1970s. Over the past thirty years, the field of microfinance has matured to include the participation of such stately institutions as the World Bank, the International Monetary Fund, and the Inter-American Development Bank. The Grameen Bank from Bangladesh aptly exemplifies the development possibilities and has become the “poster child” of microfinance institutions (Bornstein, 1997). Nonetheless, interest in the promotion of microenterprises as an engine of growth (Pisani & Patrick, 2002) and as a poverty alleviation tool (De Soto, 2000, Ortiz, 2001) in the developing world is a recent phenomenon (Kiggundu, 2002).

Through the auspices of the Microcredit Summit, the virtues of the micro-entrepreneur and microfinance have been extolled. The “Micro Summit Declaration and Plan of Action” best articulates the prevailing beliefs in the efficacy of microlending (Microcredit Summit, 1996); the prevailing beliefs are as follows:

(1) Very poor people are a good credit risk, especially in the context of mutual responsibility systems; (2) sustainability of programs in the developing world is achievable; (3) microcredit models have exhibited a high degree of replicability; (4) programs grow to serve large numbers of very poor people; (5) microcredit programs help borrowers work their way out of poverty; (6) microcredit programs stimulate savings and asset accumulation among poor people; and (7) microcredit programs become vehicles for a variety of desirable social developments. Hence, the entrepreneurial-based microfinance model of reinvigorating economically underachieving areas is being loosely replicated around the world and in the Americas (Mead & Liedholm, 1998).

The Microcredit Summit is led by practitioners in the field, most of whom have little time or interest in validating their claims, which they see as self-evident. However, recent research from Sri Lanka indicates that not all microcredit programs help borrowers work their way out of poverty. Shaw (2004) finds evidence that undermines the claim that microenterprise credit is an effective solution for the alleviation of serious poverty. Shaw (2004) finds that microfinance can work well for those who are near the poverty line and can engage in high-value enterprises. Shaw (2004) also argues that rural microenterprises, relative to urban or semi-urban microenterprises, serve to protect current consumption levels but offer limited opportunity for exiting poverty. Furthermore, Shaw (2004) suggests that programs must be complemented by investment in social and physical infrastructure if they are to have any significant impact on rural-sector microenterprise development. Mosley and Hulme (1998) also conclude that differentials in MFI impact exist: lenders may focus their efforts on the poorest and have a relatively low impact on income, or lenders may focus their efforts on the not-so-poor and achieve a higher impact on income.

Microfinance institutions (MFIs) are financial intermediaries. The approach of MFIs may range from a minimalist MFI that simply offers credit to an integrated MFI that offers social intermediation (e.g., group formation, leadership training); enterprise development (e.g., training in marketing and bookkeeping); and social services delivery (e.g., literacy training) (Ledgerwood, 1999). Primary microfinance activities include the following: (1) small loans, typically for working capital; (2) informal appraisal of borrowers and investments; (3) collateral substitutes, such as group guarantees or compulsory savings; (4) access to repeat and larger loans, based on repayment performance; (5) streamlined loan disbursement and monitoring; and (6) secure savings products (Ledgerwood, 1999, p. 1). MFIs may be organized along a continuum from a nongovernmental institution to a commercial bank, and according to Arum and Hulme, (2003, pp. 3–4) MFIs have undergone three distinct phases of growth: A"supply-side perspective" phase, which "showed the poor are bankable"; a "demand-side issues" phase, which highlighted "the needs of poor people for diverse and flexible products"; and the present phase, which is characterized by the challenge to "develop diversified financial services and products for the poor to meet their complex livelihood needs while maintaining institutional financial stability."

Though MFI clients are not typically the most vulnerable in society, they are poor nonetheless (Amin, Rai & Topa, 2003). The focus of many MFIs has been on poor women because of perceived and real differences in income security, repayment performance, and life chances. Because of this focus, much of the microfinance literature notes gendered comparisons. The performance of female-operated microenterprises, vis-à-vis male-operated microenterprises receiving microfinance, suggests few notable differences as far as repayment rates in Bangladesh (Godquin, 2004) and sales and employment creation in Guatemala, particularly for Guatemalan women in the post-childbearing years (Kevane & Wydick, 2001).

The clients of MFIs are typically shut out of the formal financial system and tend toward being self-employed operators of microenterprises. These informal businesses, synonymous with microentreprise ownership, have been defined in the literature as very small firms employing five or fewer workers and often employing just the owner (Tokman, 1992). Ledgerwood (1999, p. 2) suggests that MFI borrowers "are often traders, street vendors, small farmers, service providers . . . and artisans and small producers."

In this paper, the terms *(micro)entrepreneur(ship)* and *self-employment* are used interchangeably. *Entrepreneurship* refers to own-account employment, and in this study, the term signifies small, owner-operated concerns. Borjas and Bronars (1989), Le (1999, p. 396), and Maloney (2004) found self-employment to be a preferred employment path for those facing various barriers "in gaining employment in the wage/salary sector." The great majority of the self-employed, particularly those in the Central American environment, work under conditions of anonymity with relation to governmental and regulatory authorities and thus are considered informal sector participants (Funkhouser, 1996).

This employment that is hidden from government purview has been referred to as *informal employment* (Hart, 1973, 1970). The informal sector describes a world of illegal work performed outside the realm of government legislation (e.g., firm registration, tax collection, labor contracts, social security coverage). Yet informal work activity is not considered criminal in the respect that the work itself could be undertaken within the bounds of government legislation (Portes & Schauffler, 1993). This notion is particularly true in Nicaragua, where informal sector participants make up an estimated 75% of the economically active workforce (Pisani, 2003), and the self-employed make up one-third of total employment (Pisani & Pagán, 2004).

The Nicaraguan Environment and CARITAS Matagalpa

This section describes the backdrop of the Nicaraguan economic and entrepreneurial landscape; this information is important for the study and context of microfinance investigations (Lashley, 4). Additionally, this section provides an in-depth examination of the MFI under study, CARITAS Matagalpa.

The Nicaraguan Environment

Nicaragua is situated in Central America, nestled between Honduras and Costa Rica. Although Nicaragua is the largest country in Central America (49,998 square miles), it is the most sparsely populated nation in the region, with a predominately mestizo population of a little more than five million people. Nicaragua is the poorest country in Latin America; about 44% of the population lives on less than U.S.$1 a day, and 75% of the population lives on less than U.S.$2 a day. Nicaragua’s per capita income is $430, just below that of Haiti (World Bank, 2003a; World Bank, 2003b).

It is difficult to discuss present-day Nicaragua without mentioning the astounding transformation that has taken place in the country over the past generation: the country has undergone a social revolution; civil war; U.S. proxy war; hyperinflation; debt crisis; earthquakes; hurricanes; socialization; privatization[2]; neoliberalization and IMF-led structural adjustment, and Nicaraguan troops serving in the U.S. occupation of Iraq. In addition to these events, free-market policies have been adopted and implemented in rapid order since 1990.

Matagalpa, the site for this present research, is the second largest department (or state) in Nicaragua in terms of population (485,537 in 2003), after the capital city (and primate city) of Managua (INEC, 2003). Matagalpa, located about 100 miles northeast of the capital, enjoys a semi-tropical climate tempered by 2,300 feet of elevation (allowing for “cool” nights), perfect for coffee cultivation. The people of the department are primarily rural (63%), conservative, deeply religious, and young: half of the population is under 20 years of age. The city of Matagalpa (population 60,000) is the commercial and cultural hub of the region. The rural sector supports 21,614 individual agricultural producers, most of whom have access to very small plots of land.[3] Half of all agricultural producers do not have any formal education and the size of their farms is positively correlated to the amount of formal schooling they have had (*Instituto Nacional de Estadísticas y Censos,* 2001, Table 3).

In the only comprehensive and empirical paper studying the entrepreneurial landscape in Nicaragua, Pisani and Pagán (2004) found that about one-third of all income earners were self-employed;

they also found that women were, on a percentage basis, more likely to be self-employed than men (37% versus 31%). On average, the self-employed possessed a primary school education (five years) and had worked for over 30 years. The self-employed enjoyed higher earnings than both wage and salaried workers at a rate of 68.4% higher for men and 2.1% higher for women. And self-employed women earned about one-quarter more than self-employed men. The self-employed are found throughout the nation, but their numbers are greatest in Managua (the capital city), where an earnings premium is associated with urban residence (an earnings penalty is connected to rural habitation). While nearly 50% of self-employed men work in rural areas, nearly all self-employed women work in cities.

Pisani and Pagán (2004) further discovered that work experience, access to capital, and stability in the home (marriage, home ownership) were the primary determinants of self-employment. For men, agricultural occupation was also a determinant of self-employment. Interestingly, education was not a significant variable in self-employment choice; this indicates a heightened reliance on experience and access to capital in the formation of self-employed enterprises. Lastly, based upon the dynamics of the macroeconomy in Nicaragua, Pisani and Pagán (2004) found tentative evidence of positive selection for the self-employed when economic times are the bleakest. Relatively speaking, economic times are much better today than they were a decade ago.

CARITAS Matagalpa

CARITAS Matagalpa[4] is a full-service MFI offering credit as well as non-credit products and services; these products and services are primarily offered to existing businesses in the department of Matagalpa. The tie between CARITAS and the Catholic Church is unmistakable—the offices of CARITAS are located inside the diocesan church building, and the CARITAS workday begins with a prayer. The CARITAS staff are dedicated to microfinance as well as to their religion: both are performed in the spirit of social justice, and clients are reverent while in the confines of the offices of CARITAS.[5] Established in 1995, CARITAS Matagalpa has steadily grown to serve over 10,000 clients and has achieved a loan portfolio of about U.S.$2,700,000. Though initiated as solely an urban MFI, CARITAS Matagalpa extended its services into the rural sector in 1999 (see Table 1). In its literature, CARITAS suggests that the only requirements for prospective clients are solidarity, responsibility, and dreams of prosperity (CARITAS Diocesana de Matagalpa, n.d.).

Though CARITAS's statements of vision, mission, and objectives are not textbook versions, CARITAS not only proclaims its reason for being, but also effectively communicates its purpose to its clients. CARITAS defines itself as a "development organization; helping lift up micro and small businesses with programs of credit, offer[ing] financing in order to improve lives; [and] helping the rural sector" (CARITAS Diocesana de Matagalpa, n.d.).[6] CARITAS's vision, mission, and objective statements are offered below:

> Mission: To provide financing to small producers and microentrepreneurs within the city, barrios and rural areas of Matagalpa and to offer non-financial services that contribute to the increase in income of our clients and to better their life conditions.
>
> Vision: To transform ourselves into the only credit program in greater Matagalpa offering different financial and non-financial services in order to achieve benefit to all our clients and in this way they can make strides in their socio-economic development.
>
> Objective: Our objective is to benefit through urban and rural credit programs all those people with limited economic resources in order to contribute to the improvement of your quality of life (Valdivia Arauz, n.d.).

Although CARITAS serves both men (55.2%) and women (44.8%), the organization has made a concerted effort to include women in its client portfolio. For example, male agricultural producers make up 84.0% of the farmers in Matagalpa (Instituto Nacional de Estadísticas y Censos, 2001, Table 6), but only 68.3% of

Table 1: CARITAS Matagalpa: Client and Loan Portfolio, 1995–2003*

	Number of Clients							Amount of Loans						
Year	Commerce	%	Services	%	Production	%	Total	Commerce	%	Services	%	Production	%	Total
1995	250	87.7	35	12.3	0	0	285	23,585	87.0	3,522	13.0	0	0	27,107
1996	850	95.5	40	4.5	0	0	890	81,292	95.5	3,820	4.5	0	0	85,112
1997	1500	96.5	55	3.5	0	0	1,555	229,146	96.5	8,402	3.5	0	0	237,548
1998	2250	97.2	65	2.8	0	0	2,315	384,442	97.2	11,106	2.8	0	0	395,549
1999	2550	59.3	50	1.2	1700	39.5	4,300	539,740	52.3	12,275	1.2	480,504	46.5	1,032,249
2000	3150	56.0	84	1.5	2394	42.5	5,628	935,000	56.0	24,933	1.5	710,600	42.5	1,670,534
2001	4222	56.0	113	1.5	3204	42.5	7,539	1,210,143	56.0	32,389	1.5	918,356	42.5	2,160,888
2002	6136	63.0	252	2.6	3355	34.4	9,743	1,676,135	63.0	68,837	2.6	916,465	34.4	2,661,437
2003	6517	64.3	372	3.6	3254	32.1	10,143	1,717,265	64.0	98,934	3.7	865,402	32.3	2,681,601

*2003 is through May.

Original amounts in Córdobas, conversion based on authors' calculations (see www.oanda.com/convert/fxhistory for historical exchange rate data).

Source: CARITAS Matagalpa

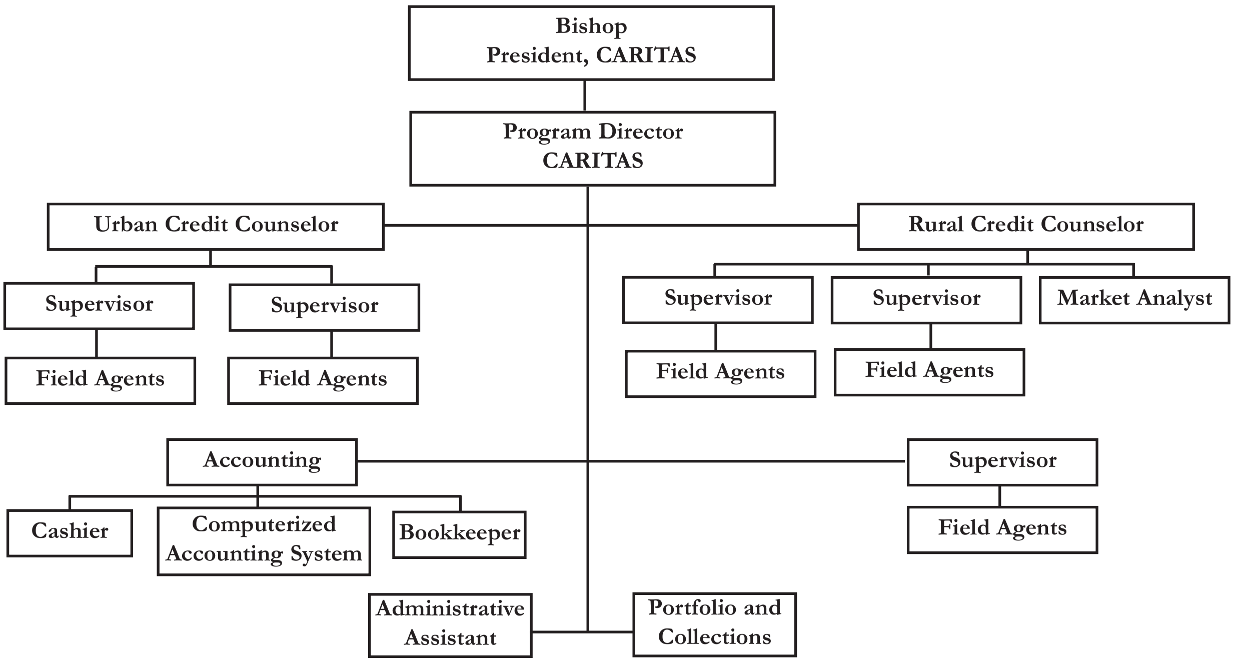
CARITAS's rural clients. Women account for 56.2% of CARITAS's urban clientele. The change in the gender ratio from more women to men can be attributed to the addition of the rural portfolio in 1999.

CARITAS enters into new markets, (in essence hamlets, neighborhoods, or barrios) systematically through contact with and approval of the community leadership. A new market is entered after an initial needs assessment of the area is completed. A community meeting is held for the local leadership to describe CARITAS, and if enough interest is solicited, a pre-credit workshop is arranged. From this workshop, potential applicants are identified, recruited, and brought into the world of microfinance. There is no doubt that CARITAS's affiliation with the Catholic Church generates a large amount of goodwill and community access. CARITAS is careful to explain to potential clients that it does not provide gifts from the church, but rather a helping hand through microfinance—a sometimes counter-intuitive proposition for would-be clients.

The decisions of whether to apply for financing are made at the individual and loan-group levels (CARITAS offers financing through the solidarity group model, with group size averaging about six people). Most loan applications are approved (95.2%), and like many world-class MFIs, CARITAS maintains a low default rate (3.3%). Both new and current clients have access to numerous business-related training workshops that are made available in the clients' area. These workshops cover important topics such as bookkeeping, basic accounting, marketing, retailing, human relations, note taking, and estimating production costs.

The forty-one-member staff of CARITAS is well-educated, trained, and dedicated to microfinance delivery.[7] The day-to-day organization consists of two levels of management: upper management, which is in the hands of the director and two credit coordinators; and supervisory management, which consists of four field supervisors and an office accountant (see Figure 1). The strategic decision-making is made by both the bishop and the director. The director has over 25 years of banking experience and has been with the MFI since its inception in 1995. Supervisory staff hold bachelor's degrees or higher, and the remainder of the staff are at least

Figure 1: Organizational Chart for CARITAS Matagalpa



high school graduates. Many of the staff pursue higher education and attend appropriate level workshops, particularly through CARITAS's association with Catholic Relief Services (CRS). CARITAS promotes from within; the current coordinators and supervisors obtained their positions in this manner. Generally, the field workers (*promotores*) are at the beginning of their work careers. The work week is generally five and a half days long.[8]

The relative youth of the organization, the careful hiring practices, and the organizational efficiency directed from the top accentuate the competitive strengths of CARITAS in the MFI marketplace: excellent customer service and quick disbursements. In addition to these strengths, the interest rate charged by CARITAS is a flat rate of 2.5% per month, plus an adjustable rate charge that is based upon the movement of the Nicaraguan Córdoba vis-à-vis the U.S. dollar (the Córdoba has depreciated from C$7.95 per U.S.$1 in 1995 to a rate of C$14.89 per U.S.$1 in May 2003—an average depreciation of 7% per year from 1995 to 2003). This Córdoba/dollar premium covers CARITAS's exchange rate cost of borrowing dollars from CRS.

Methodology

A qualitative exploration of the impact of microfinance on borrowers was undertaken in May of 2003 at CARITAS Matagalpa.[9] To assist in providing perspective to our research question, "What is the client-level impact of MFIs on microenterprise development and poverty reduction?" we developed a semi-structured interview guide of 40 questions. The interview instrument contained questions grouped around microenterprise history; the current status of the microenterprise, including the intervention of microfinancing; the current business environment; and individual- and family-level demographics (see the Appendix). The survey instrument was developed by the first author as a means of investigating similar phenomena and is based in part on the economic theory of the household. The semi-structured interview guide has been employed in a series of micro- and small-business interviews in South Texas, Northern Mexico, Belize, and Central America since 1998 without difficulty.[10]

The original survey, written in English, was translated into Spanish and then back-translated into English. To ensure readability and clarity, as suggested by Brislin (1980), bilingual graduate students at the second author's institution completed the translation and back-translation, and minor differences were resolved.

In all, 36 firm-level interviews were conducted in the urban core and periphery of Matagalpa, as well as in two rural communities within the department of Matagalpa. The urban sample of 22 firms was drawn from seven neighborhoods within the city of Matagalpa proper and adjacent barrios.[11] San Ramón and Sébaco, two rural, mostly isolated communities within an hour's drive of Matagalpa (but within the department of Matagalpa), were also included in the sample; fourteen interviews were conducted in these areas.[12] The stratified targeted sample of CARITAS clients was drawn with the help of CARITAS staff and was based on the overall loan portfolio. The parameters for firm-level selection were developed by the authors of this study. The operationalizing of the sample was left to chance once the investigators entered into a targeted geographical area.[13]

A CARITAS field worker, supervisor, and/or a coordinator introduced the CARITAS client and the investigators.[14] The stratified targeted sample was meant to broadly cover the geographical reach (urban, rural), sectoral composition (commerce, services, agricultural production), and gendered (female, male) nature of CARITAS Matagalpa. Each firm that was contacted willingly participated in the study. The interviews were conducted in Spanish at the location of the business and lasted between thirty minutes and an hour and a half; the interviews also included a tour of the business or farm.

Results

In this section we present an overview of the three dozen interviewed firms, undertake multivariate analyses with respect to loan size and business income, and provide four in-depth case studies.

Overview

Our stratified, targeted sample of the CARITAS Matagalpa loan portfolio included a variety of businesses from both urban (61%) and rural locations (39%).[15] These 36 businesses included in-home, one-room general stores (38.8%),[16] farms (25%), bakeries (5.6%), tailoring shops (5.6%) and one business each of the following: clothing store, eatery, fruit stand, hardware store, packaged-nut seller, butcher shop/fruit stand (combination), potato-chip-making business, and a pharmacy and shoe retail business.[17] All of these firms had the common desire to access credit for their businesses through the auspices of CARITAS.

The term *microcredit* aptly describes the loans for each firm. The average loan size for our sample of 36 microbusinesses was $382.54. The microbusinesses were, on average, operating within their eighth loan cycle; loan cycles usually run from six to eight months in length. Our present sample is composed of relatively veteran clients, who have an average of four years experience working with CARITAS (see Table 2). At the time of our interviews, the average loan amount still outstanding was $244.93. Typically, CARITAS provides smaller amounts of financing to new clients; as these clients pay back their loans, they become eligible for another loan cycle, with the opportunity to borrow more money.[18] Once the microenterprises turn in their loan applications, solidarity group paperwork, and contracts (nine pages in total), CARITAS disburses credit in less than three days on average.[19] In line with the default/arrears rate of CARITAS (3.7%), one firm (2.8% of our sample) was in default of its loan. Though two firms in our sample possessed loans from other MFIs, CARITAS's policy proclaims that its applicants cannot have current loan obligations with other lending organizations, to avoid the issue of borrowers' recycling current debt for another source of debt.

Table 2: Loan Characteristics (As of May 2003)

Variables	Results
Average Time in Days from Loan Application to Disbursement	2.6 Days (range: 1–7 days; std. dev. 1.4)
Percentage of Firms Delinquent in Repaying Loan	2.8%
Average Loan Size (U.S.$)	$382.54 (range: $100.74–$2,014.78; std. dev. $393.75)
Average Payment Period	7.1 Months (range: 4–12 months; std. dev. 2.0 months)
Average Loan Outstanding (U.S.$)	$244.93 (range: $20.15–$1,007.39; std. dev. $261.85)
Collateral Requirements	86.1% None; 11.1% Co-Signer; 2.8% Mortgage
Average Solidarity Group Size	12.4; 4.4 Men & 8.0 Women (range:1–41; std. dev. 9.3)
Average Group Loan Amount (U.S.$)	$2,614.57 (range: $503.69–$7,904.63; std. dev. $1,714.98)
Average Loan Cycle	7.9 (range: 1–20; std. dev. 6.8)
Percentage of Firms With Other Loans	5.6%

The solidarity-group average of just over twelve members is about double the average of CARITAS's group size. Our sample was weighted somewhat more female than the MFI's average, with about four men and eight women in each group. The average total loan amount for each group was just over $2,600, or just over $200 per microenterprise. In the spirit of the solidarity group concept—meaning the group guarantees the repayment of loans—collateral was not, for the most part, required of our sample; because of the lack of collateral collection, the group maintained access to almost any small business.

Firm- and client-level characteristics are reported in Table 3. Self-reported sales and income data suggest average annual sales revenues of $7,334.664 and average annual business income of $1,863.24. Adjusting for other household income and the size of the household, per capita income in our sample is $450.71, on par with Nicaragua's national average.[20] Nearly six in ten of the interviewed firms identified themselves as informal business owners or as not part of the official business community as measured by the government's inability to collect taxes or secure registration from the microenterprises. A third measure of informality, non-enrollment in social security, was also used to confirm informal status. These findings are in line with previous research (Pisani, 2000).

The sampled firms employ about one paid and two-and-a-half unpaid (family) employees. Most paid employees earned between $1 and $2 per day. Though most of the interviewed microentrepreneurs had a notion of what kind of business they wanted to create, only two (5.6%) actually put pencil to paper to develop a written business plan prior to business start-up (formal business planning is not a prerequisite to loan disbursement). Because of the large number of *pulperías* in our sample, the average work week appears high at 66.8 hours per week; this is because *pulperías* are open about 18 hours per day, seven days a week. Removing *pulperías* from the sample reduces the average work week to 49.3 hours, which is in line with previous studies of self-employment in Nicaragua (see Pisani & Pagán, 2004).

As previously stated, about two-thirds of the present sample is made up of female-owned microenterprises. For the most part, our sample of microentrepreneurs are married and middle-aged and have a primary school education. They are also home owners and household heads; a typical household consists of about six people (four adults, two children) living in a cramped home with about two bedrooms.[21]

Table 3: Firm- & Client-Level Characteristics (As of May 2003)

Variables	Results
Firm-Level Demographics	
Monthly Sales	Average: $611.22 (range: $0–1,78.98; std. dev. $477.03)
Monthly Income (profit)	Average: $155.27 (range: $0–$671.59; std. dev. 147.95)
Number of Paid Employees	Average: .97 (range: 0–6; std. dev. 1.6)
Number of Unpaid Employees	Average: 2.5 (range: 0–9; std. dev. 1.7)
Business Plan at Start of Business	Yes: 5.6%; No: 94.4%
Business Formality	Formal: 41.7%; Informal: 58.3%
Hours Worked (weekly)	Average: 66.8 (range: 16–122.5; std. dev. 32.4)
Client Demographics	
Gender (female, male)	Female: 66.7%; Male: 33.3%
Age (years)	Average: 44.5 (range: 29–74; std. dev. 11.5)
Education (years)	Average: 5.6 (range: 0–14; std. dev. 4.1)
Work Experience (years)	Average: 32.9 (range: 9–66; std. dev. 13.7)
Marital Status	Single: 19.4%; Married: 75.0%; Widowed: 5.6%
Household Size	Average: 5.9 (range: 2–14; std. dev. 3.0)
Number of Adults in Household (age 12 and over)	Average: 3.8 (range: 2-12; std. dev. 2.4)
Number of Children in Household (under 11)	Average: 2.0 (range: 0_7; std. dev. 1.8)
Home Ownership	Yes: 94.4%; No: 5.6% (renting)
Number of Bedrooms in the Home	Average: 2.3 (range: 1–4; std. dev..9)
Household Head	Yes: 52.8%; No: 8.3%; Shared with Spouse: 38.9%
Other Household Monthly Income	Average: $63.33 (range: $0–$335.80; std. dev. $85.90)

An important outcome of the CARITAS program is improved welfare of its clients. We asked our sample of microentrepreneurs two questions related to household health and food consumption before and after the acquisition of microfinance from CARITAS. Just over half (52.8%) of our interviewees indicated an improvement in household health and food consumption subsequent to their loans from CARITAS: most interviewees went from having insufficient household food and health care funding prior to their loans from CARITAS to having sufficient funds to meet food and health care needs within the immediate family unit. Nearly 40% of the sample (38.9%) indicated no change in their health care or consumption of food—these statistics were reported in two subsets: the first sub-group (33.3%) rated their expenditures as sufficient pre- and post-financing with CARITAS, while the second sub-group (5.6%) indicated that they did not have adequate funding for food or health care pre- or post-financing. And almost 10% (8.3%) indicated an improvement from sufficient food consumption and health care to a higher quality of food consumption and health care. It is significant that over 60% of CARITAS clients have indicated a noticeable and qualitative improvement in their household health care and food consumption.

The links between Church, faith, and economic opportunity were tightly woven in our sample. This concept was demonstrated overtly by individuals' statements that "if not for the goodwill of the Church [CARITAS Matagalpa], we would not have access to credit," and "only CARITAS cares enough about us here in the remote rural hamlets to search us out and serve our needs," and "with the help of God, we will be able survive and repay our loans." Though CARITAS is amongst the lowest-cost providers of microcredit out of about a dozen competitors in the region, it is the reach, care, and trust associated with the Church that clients seek in meeting their financing needs. These positive spillovers, in effect, give CARITAS advantages in the marketplace: these advantages include name recognition, trust, ease of entry into new neighborhoods (markets), (brand) loyalty, and salvation.

Multivariate Analyses

One area in which CARITAS has control over the businesses with which it interacts is the amount CARITAS is willing to provide microentrepreneurs in the form of loans. In order to detect any patterns associated with loan making, we conducted a multivariate analysis (multiple regression) comparing loan size (the dependent variable) with plausible (a priori) explanatory (or predictor) variables—these variables included the location of the business (urban coded as 0 or rural coded as 1), monthly sales data, the degree of formality of the firm (formal coded as 0 or informal coded as 1), years of work experience of the microentrepreneur, the total loan amount offered to the solidarity group, the repayment period, and number of employees (both unpaid and paid). The multivariate analysis was conducted using the data collected during the qualitative interviews. The following multiple regression equation, significant at .005 level (F=3.800), with an adjusted R^2 of .359, shows the following:

Loan Amount = –219.48(constant) –.646(urban)[a] +.038(monthly sales) +.267(formal) –.246(experience) +.011(group loan size) +.543(payment period)[a] +.197(number of paid and unpaid employees)

[a] Significant at the .01 level

This equation suggests that the size of loan that CARITAS lends a firm is positively influenced by the following factors: urban residence, higher firm-level monthly sales, an informal business position in regards to government, greater total group loan size, extended payment period, and the number of employees (see Table 4).[22] On the other hand, the size of the loan is minimized by residence in a rural area and years of work experience. Urban residence and payment period are significant at the .01 level; this significance emphasizes their predictive power in determining the size of the loan: that is, if the applicant resides in an urban area and is given a longer period to repay his or her loan, it is likely that he or she has received a relatively larger loan than others from CARITAS.

Table 4: Multiple Regression Results for Loan Amount

Variable	Standardized Beta Coefficients	T Statistic	VIF	Significance
Constant		–.561		.579
Urban	–.646	–3.562	1.795	.001***
Monthly Sales	.038	.242	1.342	.811
Formality	.267	1.569	1.587	.128
Work Experience	–.246	–1.597	1.296	.121
Group Loan Size	.011	.057	2.048	.955
Payment Period	.543	3.050	1.731	.005***
Total Employees	.197	1.262	1.334	.217

***, **, * imply statistical significance at the 1%, 5%, and 10% level, respectively.

Although the disposition of finance is outside the explicit control of CARITAS Matagalpa, we believe that it influences monthly business income. Because of this belief, a statistical test was run to determine the influence of a set of multiple predictor variables on monthly business income (dependent variable). These multiple predictor variables included monthly sales, work experience, repayment period, total number of paid and unpaid employees, civil status (single coded as 0 and married coded as 1), loan cycle, and loan amount. The data was collected in the same manner as described above. The following multiple regression equation, significant at .000 level (F=15.690), with an adjusted R^2 of.746, shows the following:

Monthly Business Income = 344.14(constant)[a] +.696(monthly sales)[a] – 1.97(experience)[c] –.256(payment period)[c] +.106(number of paid and unpaid employees) –.149(civil status) –.369(loan cycle)[a] –.242(loan amount)[b]

[a] Significant at the .01 level; [b] Significant at the .05 level; and [c] Significant at the .10 level

These results clearly indicate that CARITAS does indeed heavily influence (among other factors) the monthly business income of the firms in our sample (see Table 5).[23] Monthly business income is positively related to monthly sales and the number of employees, and the constant is large and positive. Business income is tempered by work experience, length of the repayment period, marriage, the number of previous loans from CARITAS, and the overall loan amount. All factors but the number of employees and civil status were significant in the equation.

Lastly, the literature (Grosh & Somolekae, 1996; Mead & Liedholm, 1998) suggests that as firms grow, their exposure grows; this correlation may require government to take an explicit role in the business (e.g., licensure and taxes). Additionally, many proponents of microfinance discuss the notion of bringing informal firms into the formal business landscape (see Pisani & Yoskowitz, 2004). Hence, we sought to determine if it were possible to predict the degree of formality in the sample set of firms by utilizing logistic regression. Logistic regression is the appropriate multivariate statistical technique to estimate the predictive power of multiple, independent variables against a binary categorical dependent variable (formal business [yes=0] versus informal business [no=1]). Logit has the added benefit of relaxed assumptions (e.g., multivariate normality and equal variance-covariance matrices across groups—see Hair, Anderson, Tatham & Black, 1998). This statistical test is exploratory because of the small sample size and the non-randomness of sample acquisition. Nonetheless, our logit results suggest that work experience and firm location are significant factors in the determination of informality (see Table 6). The factors are specifically the following: (1) Each additional year of work experience indicates a 0.9% greater chance that the firm will be informal. (2) An urban location (where the possibility of governmental detection and enforcement is greater) reduces the likelihood of informality by 98.9%.

Table 5: Multiple Regression Results for Monthly Business Income

Variable	Standardized Beta Coefficients	T Statistic	VIF	Significance
Constant		3.188		.004***
Monthly Sales	.696	6.926	1.390	.000***
Work Experience	–.197	–1.980	1.357	.058*
Payment Period	–.256	–1.839	2.681	.077*
Total Employees	.106	1.110	1.247	.277
Civil Status	–.149	–1.580	1.228	.125
Loan Cycle	–.369	–2.911	2.210	.007***
Loan Amount	–.242	–2.273	1.567	.031**

***, **, * imply statistical significance at the 1%, 5%, and 10% level, respectively.

Table 6: Logistic Regression Results for Formal Versus Informal Firms

Variable	β	S.E.	Wald	Sig.	Exp(β)
Constant	.469	2.428	.037	.847	1.598
Employees	–.187	.287	.426	.514	.829
(number of employees)					
Experience	.087	.050	2.994	.084*	1.090
Urban		–4.527	2.147	4.447	.035**
(urban residence =0, rural residence = 1)					
Household	.096	.195	.243	.622	1.101
(number of persons living in the household)					
Gender	.578	1.450	.159	.690	1.782
(female = 0, male = 1)					
Monthly Sales	.000	.000	.006	.940	1.000
Group Size	.118	.082	2.076	.150	1.125
(members in solidarity group)					
Loan Amount	.000	.000	2.360	.124	1.000
Loan Cycle	–.019	.082	.039	.843	.981
(current loan cycle)					
Number of Rooms in Household	–1.024	.665	2.368	.124	.359
Model Chi Square (df)				20.100 (10)	.028**
Percent Correct Predictions				80.6	
Nagelkerke R Square				.576	

***, **, * imply statistical significance at the 1%, 5%, and 10% level, respectively.

Case Studies

In an attempt to display the richness and diversity of the microenterprises interviewed, four microenterprises—a chicken farm, urban clothing store, a rural *pulpería,* and an urban food-processing establishment—will be discussed.

Chicken Farm

El Pollero, the chicken farmer, is a weathered man of 63 years who has long term familial roots in the land. In his youth, *El Pollero* cut sugar cane for seven years along the Pacific coast and worked for a time as a chauffeur, but he has spent the bulk of his years on his family's farm in Matagalpa. *El Pollero* approaches life with the zest of knowing that only a few years of his own life remain; he also lives in the hope of passing on an activity that generates additional income to his extended family of twelve, which is cramped into a one-bedroom adobe dwelling. In addition to the chicken business, *El Pollero*, along with his wife and children, farms eight manzanas sowed in basic grains; these two informal business operations generate an average monthly income of $87.31.

His personal trust in the Church, in combination with the lack of competition from other finance institutions in the agricultural hinterland, has made CARITAS the natural choice for financial support. With $201.48 of financing from CARITAS, *El Pollero* has built a 20' by 20' pole barn with cement flooring to house a few dozen chickens that are segregated into five stalls by age. At the time of the interview, *El Pollero* was just about to sell his first batch of five-pound chickens, as well as a few two-and-a-half-pound chickens (one month olds) as a cash infusion to help with loan repayment.

El Pollero sees a need (demand) for chickens in the community; he utilizes *pulperías* in the nearby hamlets as his distribution channel to customers within the rural district of Matagalpa. In the near term, *El Pollero* does not have any local competition; he would like to raise more chickens and enlarge the physical operation. Even so, he has not developed a formal plan for his business other than a mental map of how the business might proceed. The informal chicken-raising business consumes about eighteen hours of family time per week (in all, three unpaid family members assist *El Pollero* in caring for the chickens).

Urban Clothing Store

Within the heart of Matagalpa city, a tiny used clothing store, no bigger than a small bedroom (10' by 8'), hugs the busy sidewalk. Attractive and colorful clothing, primarily for women, is arranged neatly on seven poles that are stacked top to bottom, two by two. A display that exhibits a small glass cabinet containing accessories (e.g., bracelets, earrings) sits on the sidewalk near the store. The formal sector business is owned by a 31-year-old well-educated women who is assisted by two unpaid family members (cousins). Toting her newborn to work, the clothier spends six days a week, ten hours a day, selling clothes in the rented alcove where she has plied her trade for four years.

Clustered nearby are three other used-clothing stores, making competition intense. To better compete, this particular clothier obtained a $725.32 loan from CARITAS to increase the store’s inventory and upgrade the quality of the second-hand merchandise. Although the loan had just been disbursed at the time of the interview, it was anticipated that the new inventory would increase both monthly sales ($671.59) and monthly business income ($201.48). It is possible that the loan will even allow for an expansion and relocation of the store, though no formal business plan is in place.

The clothier’s business income is supplemented by spousal earnings of $134.32 per month. This relative “affluence” permits her to telephone clients when new merchandise arrives; she is also able to give her eight best customers a line of credit at the store. Ultimately, the clothier wishes to change businesses altogether and open a five-and-dime store.

Rural Pulpería

In rural Matagalpa, just off a dirt road that is barely passable in the dry season, a family of six lives inside a concrete building painted grass green. The building is primarily devoted to selling items that are needed in the rural hamlet: shoes, clothing, food supplies, toiletries, medicines, condoms, and tools. Other desired items, such as snacks, ice cream, soda pop, toys, and beer are also available. The owner of this *pulpería* is a 40-year-old female entrepreneur with a fourth grade education. She began her *pulpería* in 1999 with the assistance of a distributor, who originally provided her product on a consignment basis. With a present inventory valued at just over $2,000, this informal-sector *pulpería* is one of the best stocked of any *pulpería* in the department of Matagalpa.

This entrepreneur's product mix has been developed from a lifetime of living and working in rural Matagalpa. With her loan of $134.32 from CARITAS, the proprietor added used clothing as retail items, which she felt were in demand, but generally unavailable, in the community. As the only *pulpería* in the hamlet, the proprietor exerts monopoly power on convenience goods. Nonetheless, the proprietor has tied her clientele to the business through offering credit to thirty of her fifty total regular customers. The proprietor reinvests part of her monthly business income of $402.96 (derived from monthly sales of $1,611.82) in inventory stock, based on a mental map of how she would like to build her business. One paid employee (who earns $20.15 per month) and two unpaid family employees assist the proprietor in the store; all workers are allowed the opportunity of a 48 hour work week. The proprietor prides herself on offering excellent customer service and quality products to her natal community.

Urban Food-Processing Establishment

In a residential area of Matagalpa lies a two-story family abode that has been mostly converted to the relatively large-scale production of deep fried snack foods, such as chips and bananas. The deep fryer (a large vat) is located at the top of the wood-smoke blackened and grease-laden stairs on the second floor. Here, a male worker fries the snacks, which are processed by women in the packing area on the first floor. Cutting and peeling rooms are also found on the first floor, where a young man cuts raw potatoes, yucca, and bananas to be deep fried upstairs. In the packing area, a young lady weighs chips, inserts them into a plastic bag, and seals the plastic bag by running the top edge of the opening across a hot metal can—a simple and efficient use of appropriate technology. In all, six paid employees and two unpaid employees assist in the production, packaging, and selling process six days a week, twelve hours a day. The paid employees earn $1.34 a day.

The entire business operation is overseen by the owner, a 42-year-old matriarch who has extensive business experience in foods (she previously made and sold tortillas, and she operated a *pulpería* for six years), but only two years of formal education. She can be seen moving between the sectors of production, quality control, and selling. The owner sells her product to independent street vendors and *pulperías* and through her own sales force. With her loan of $940.23 from CARITAS, this formal-sector business owner has been able to increase her production and sales network to combat a lack of production capacity, which has hindered sales (at the time of the interview, the business had monthly sales of $1,511.08 and a business income of $100.74). She phones and visits distributors and customers to seek new business and maintain current clients. The owner's future plans are to expand the size of the production facility, acquire more modern technology, and expand the business to help support her family of seven. Fortunately, her husband and older children contribute $268.63 in monthly support to the household, which, combined with the assistance from CARITAS and her business profits, may allow the owner to realize her expansion dreams.

Discussion

These four case study vignettes provide a closer look into the operation of microenterprises in Nicaragua and the efficacy of microfinance through CARITAS Matagalpa. *El Pollero* exhibits the multiple earning strategies of life on the farm and the concept of expansion into areas of low-risk because of accumulated knowledge of rural life. His focus is on production, yet like many small producers in the rural zones of Nicaragua, his lack of knowledge of the agricultural wholesale market may make it a challenge for him to become anything more than a price-taker in the local marketplace. On the other hand, the prospects for the rural *pulpería* are excellent because the owner has avoided competition by carving out a niche for herself in terms of location, product assortment, customer service, and payment. As is typical of Nicaragua in general, and of the rural sector in particular, both the chicken farm and the *pulpería* are informal firms. And both firms are so remote that only CARITAS has ventured to serve their microfinance needs. Note that CARITAS does not charge a differential rate based on competition (or lack thereof) in the area; as part of its mission, CARITAS is committed to serve even the most remote microenterprises, regardless of increased administrative costs.

Both the used-clothing store and the food-processing establishment are located in the city of Matagalpa in areas that make it difficult to avoid government detection; hence, both firms are formal microenterprises. Both firms take advantage of urban amenities by utilizing the telephone to solicit business and optimizing the physical infrastructure (paved sidewalks and roads) to move or sell merchandise. The food-processing establishment relies upon a thin margin associated with higher sales volume (only available in urban settings) to make a profit. The clothier has secured a small core of middle-class urban clients and urban passersby as the basis of her clientele. Quick turns of quality inventory, new styles, and personal selling are the clothier's competitive advantages.

For each of the four featured firms, business ingenuity and familial participation as a source of help (mostly unpaid) were critical ingredients for business operation and (potential) success. Each microenterprise would have benefited from greater technical assistance available from CARITAS.

In terms of the entire sample, several firm-level issues are evident: (1) repayment rates are high; (2) formal business planning is mostly absent; (3) income from self-employment—influenced by business sales volume, work experience, number of employees, and the loan from CARITAS—is much higher than wages in microenterprises; (4) the size of loans provided to borrowers from CARITAS is directly related to urban location and length of repayment period; (5) work hours are long, particularly for *pulpería* proprietors; (6) the degree of informality diminishes in urban areas and increases in relation to the microentrepreneur’s work experience; (7) loan cycles are short; (8) a few of the urban clients within the CARITAS portfolio potentially had a choice of microfinance institutions from which to borrow; (9) the clients serviced by CARITAS are not, by and large, the economic dredges of society; rather, borrowers have been self-selected out of the most precarious economic positions and into higher income groups based on their business ownership; and (10) for most borrowers, consumption of life’s basic amenities—health care and food—has improved.

The solidarity model has worked well in creating an environment for loan repayment in Matagalpa.[24] However, the solidarity model may exclude (a priori) the segment of the population that would rather work independently of others. During the Sandinista era of land collectives, one flashpoint in rural zones was the choice of whether to work on a farm cooperative or on one’s own account. Beyond the solidarity model, one method of encouraging the repayment of loans is the use and evaluation of appropriate business planning and technical assistance (both were either absent or optional in this study).

Typical constraints for small-business success are inadequate financing and lack of formal business planning. With CARITAS supplying the financing for all firms in our sample, the constraint of financing was eliminated. The two firms that had formal business plans managed much larger sales volumes and monthly incomes (about twice as much) than those firms without written business plans. It is difficult to make generalizations based on the outcome of a written business plan because only two out of thirty-six firms had written business plans: However, it is clear that business planning may be an important variable to monitor in provisioning microcredit as well in building capacity at the enterprise level.

As Pisani (2000) found in his study of the Nicaraguan labor market, self-employment may not be such a precarious situation, even in the informal sector, as previously thought. However, as the present study reveals, paid employment in the microenterprise sector (formal or informal), is abysmal. Consistent with previous findings (Pisani & Pagán, 2004), business activity is related to urban location. Degree of formality is related to the urban connection in our sample; that is, government detection and enforcement is much greater in the city than in the country.

An ancillary goal of microfinance should be incorporation of microenterprises into the larger business community, including incorporation into the realm of business registration and taxation. That is, as businesses grow, particularly with the assistance of microfinance, the benefits of formality and the costs of informality—evasion and punishment— may eventually outweigh the benefits of informality (Cross, 1998). Informal firms remain small in size and scope and wary of government agents. Hence, evasion costs impinge upon firm-level growth, formal (commercial) finance options, and customer selection. Punishment costs refer to firm-level costs coupled with exposure, such as back taxes and business fees. From the government's perspective, formalization allows for greater tax collection, firm and consumer protection, and macroeconomic planning.

Small loans with short loan cycles are consonant with loan monitoring and business success in building the financial capacity of microenterprises in the absence of collateral. That is, short repayment time frames force quick intervention if repayment is a problem, and additional financing suggests the ability to repay at higher loan levels. For a few established firms in our sample, CARITAS was the "bank" of choice. It was evident that these established firms could have accessed other MFIs or formal financial institutions; these firms may have chosen CARITAS because of its relatively easy application process, quick disbursement, and fine customer service. Though CARITAS's mission is to reach out to the poor, the poorest of the poor may not be accessing CARITAS's services. Our sample clearly shows that although the microentrepreneurs that utilize CARITAS may be living at the margins, they are not marginalized. And for most entrepreneurs, CARITAS's involvement in their lives has corresponded with improved health care and food consumption.

The picture that begins to emerge from our study indicates a professional, customer-focused, world-class MFI that is improving the lives of thousands in the central highlands and lowlands of Matagalpa, Nicaragua. CARITAS is quick to disburse loans, regardless of whether the solidarity group is petitioning for financing in its first, fifth, or tenth loan cycle. In this devotedly Catholic region, CARITAS's affiliation with the Catholic Church has provided positive spillovers in the marketplace: these positive spillovers include access to potential borrowers, implicit trust between MFI and client, and goodwill in the community. But the real competitive advantage of CARITAS is the organization's desire and ability to service rural Matagalpa. The agricultural sector is inherently riskier for businesses (e.g., weather unpredictability, price-taking in commodity markets) and costlier to service because of low population densities and longer travel times. Even so, clients repay loans at a rate of 96.3%; the loans have been good risks, despite having interest rates that are slightly above commercial market-rate interest rates. Notwithstanding these successes, CARITAS is constrained from becoming an independent commercial bank to the poor because of the organization's relation to the Church.[25] As a self-sustaining MFI, it may be time for CARITAS to consider financial independence from the diocese. This independence may be filled with risks for CARITAS if the spiritual connection is lost, not only for the borrowers, but also as a sense of mission for the staff.

Clearly, CARITAS Matagalpa is fulfilling its mission to provide financing to microenterprises in the local community in tandem with its mission to enhance "life conditions." CARITAS is a relatively young MFI, established in 1995 with service to Matagalpa city and expanded in 1999 to the adjacent rural districts of Matagalpa province. Though the small-business community is not necessarily the most impoverished, especially in urban Nicaragua (Pisani & Pagán, 2004), the move to full-scale lending for microenterprises in the agricultural sector puts CARITAS in the heart of socio-economic hardship (Pisani, 2003)—CARITAS is getting nearer to helping the truly impoverished. Superior leadership has enabled CARITAS to achieve financial self-sufficiency in less than a decade, a milestone in MFI development.

Conclusion

Within the present neoliberal era, promulgated by the International Monetary Fund and the World Bank among others, Third World governments have retreated from state-led poverty abatement projects. This has been especially true in Latin America and Nicaragua (Pisani, 2003). Chief among lasting poverty-reduction programs in the region are programs that offer enhanced educational opportunities (Pisani & Pagán, 2004) and macroeconomic policies that have been designed to foster microenterprise and small business growth (Pisani & Patrick, 2002). Microfinance continues to grow in importance as a vehicle to arrest the abject poverty of many. As the microfinance movement matures, it is important to reflect upon the successes and challenges facing MFIs around the world. Perhaps a consensus on best practices in microfinance is emerging (Ledgerwood, 1999). The present study has sought to report the qualitative findings of a single, albeit large and self-sustaining, MFI operating in Matagalpa, Nicaragua.

Our findings suggest that MFIs like CARITAS Matagalpa are making a difference in the lives of thousands. For the more than 10,000 clients of CARITAS Matagalpa, microfinance has enabled microentrepreneurs the opportunity to start, expand, and develop enterprises with the goal of enhancing their lives. This enhancement of entrepreneurs' lives was particularly evident in our qualitative sample that showed that access to finance improved the consumption of food and health care for most clients.

Moving beyond the basic survival strategies of low-value activities and microenterprises, we found that monthly business income was positively related to the amount of monthly business sales; this correlation suggests that CARITAS must focus on firms with the ability to grow and ramp-up sales as priority clients to effectively parley microcredit into a significant poverty-reduction strategy. Our findings also suggest that these clients are more likely to be found outside the current network of CARITAS borrowers, particularly in urban areas; this situation leaves much work to be done for CARITAS. Additionally, our findings suggest that the spiritual element embedded in the work of CARITAS, which operates under the auspices of the local Catholic diocese and Catholic Relief Services, makes for a powerful combination of secular and spiritual to fight poverty in the district of Matagalpa, Nicaragua.

Within the field of microfinance in general, the successes and failures of church-sponsored MFIs have been understudied; however, these MFIs are no less important than others, especially given that the outward goal of the church is to make strong both body and spirit. We suggest further research utilizing larger, random samples that focus on a single sector (e.g., bakeries or fruit vendors) or a comparative approach across in-country MFIs or cross-national networked MFIs. This additional research may provide quantitative and generalizable insights that cannot be discovered at the qualitative level. Also worthy of future study is an institutional analysis examining the self-sufficient nature of CARITAS, because of the dearth of stand-alone MFIs.

Appendix: Semi-Structured Interview Guide

The semi-structured interview questions appear below and are grouped around micro- and small-enterprise history, current status, business environment, and demographics.

Part A: Micro/Small Enterprise History

1. Brief entrepreneurial history, including other businesses owned (and where owned).
2. Brief history of current micro/small enterprise, including when founded.
3. Business name, location (previous locations., description (type of business), why you started the business (new idea, support self, support family).

4. Did you have a business plan (written document) in place when you began the business?

5. How did you finance the start-up of the business? (CARITAS loan, personal funds, family, friends, bank, etc., and at what terms.)

Part B: Current Status of Micro/Small Enterprise

1. Number of paid employees.

2. Number of unpaid (family) employees.

3. Hours worked per week.

4. Sales/business revenues.

5. Business income.

6. The degree to which the business operates in local and global currencies.

7. The degree of impact (if any) that location has on the micro/small enterprise.

8. Customer base, language usage of customer base; where do your customers come from, how did your customers hear about your business?

9. How do you determine business success?

10. What are your future plans for the business, say in one year? In 2–5 years?

11. How do you meet your present needs for business financing?

12. What are your biggest strengths/opportunities? What are your biggest challenges/needs? What are your biggest constraints?

13. Detail the marketing activities of the micro/small enterprise.

14. Are there any “unexpected” business expenses, such as the following: (a) an informal business “pay-off” to a local official; (b) necessary repairs; (c) business blunders
15. Your assessment of the formality of the business—is the business formal or informal? Why?

Part C: Business Environment

1. What responsibilities do you and your business have, if any, in the community?
2. Are you a role model to others?
3. What is the role of government in your business? What ought to be the role of government in your business?
4. Describe the current business climate for your type of business.

Part D: Demographic Profile of Entrepreneur

1. Age:
2. Gender:
3. Education level (in years of education):
4. Marital status:
5. Ethnicity:
6. Language proficiency and preference:
7. Place of birth:
8. Length of time lived in the region:
9. Length of time extended family has lived in the region:
10. Parents’ occupation:
11. Number of people in the household:
    Number of adults:
    Number of children:

12. Home ownership:
13. Number of rooms in the home: (not including bathrooms, hallways, garages, or rooms dedicated to the business)
14. Other household income (monthly):
15. Head of household:
16. Family food/health expenditures prior to/after microcredit was/is sufficient/insufficient:

Notes

We thank the staff and clients of CARITAS Matagalpa, Nicaragua, for their hospitality and for allowing us research access. We would also like to express our thanks for the constructive criticisms by the anonymous reviewers; the criticisms have been invaluable in improving the present paper, although any remaining errors are still our own. We also gratefully acknowledge the financial support from the Faculty Research and Creative Endeavors Committee of Central Michigan University in defraying a portion of the research costs associated with this research project.

1. Maria Otero (1999, p. 8) has defined microfinance as "the provision of financial services to low-income, poor, and very poor self-employed people."

2. Comparatively, in the Latin American context, Nicaragua in the 1990s resembled Chile in the early post-Allende era (1973-1979). That is, the withering away of a statist-centered economic model and the transition to a market-based economy are clear parallels (see Pisani, 2002).

3. Agriculturalists that hold 0 to 5 manzanas of land make up 36.6% of producers; farmers that hold 5.01 to 20 manzanas of land make up 49.4% of producers; and farmers that hold more than 20 manzanas of land make up 14.0% of producers (Instituto Nacional de Estadísticas y Censos, 2001, Table 1). One manzana of land equals an area of 100 yards by 100 yards and is the traditional land-measurement mechanism in Nicaragua.

4. CARITAS or CARITAS Matagalpa is short for CARITAS Diocesana de Matagalpa (CARITAS, Matagalpa Diocese). CARITAS also uses the sub-heading Programa de Apoyo Financiero Urbano y Rural (Urban/Rural Financial Help Program), or PROAFUR, in much of its literature.

5. Since May 2004, the offices of CARITAS Matagalpa have officially moved two lots north of the diocesan center; the offices are still adjacent to the church (with the Catholic radio station in-between) but are physically separate, though the

connection to the Catholic Church is pervasive. However, at the time of the present study, CARITAS Matagalpa was still located within the confines of the diocesan church; as such we have kept this information in the body of the text.

6. First author's translations (as are all subsequent written and oral communications and interviews).

7. The number of staff refers to the number during the time period of the study. By May 2004, staff had increased to forty-five associates.

8. For an organizational perspective, see Pisani & Yoskowitz (2003). "Informe de Consultoría para CARITAS Matagalpa."

9. As the first stage in a multi-year study with CARITAS Matagalpa, a qualitative approach was deemed the best initial research foray to study the impact of CARITAS upon its clients in an in-depth manner. Hence, the appropriate technique to use was a semi-structured interview; budget and time constrained the total number of interviews which could be collected. Subsequent quantitative-research designs that were shaped by this early qualitative work have been developed and deployed with CARITAS Matagalpa; the results of these studies are in progress.

10. See Pisani and Yoskowitz (2004) for a comparative use of this semi-structured interview guide in Belize, Central America.

11. The seven neighborhoods are as follows: Reparto Sandino, Progreso, Solingalpa, Rodolfo López, Santa Teresita, Guanuca, and September Eleventh.

12. These two communities served as the local hub as the firm locations and were located in the backwoods where only burros, horses, motorcycles and sturdy four-wheel drive vehicles venture.

13. By definition, qualitative research is non-randomized. Nonetheless, the authors attempted to create a sample that was representative of the whole in order to broaden the insights offered by the present research.

14. The authors of this study were assisted in their interviews by two paid business students from the local university who were familiar with the study and CARITAS. Each student was trained by the first author of this study to assist in the interview process and in the transcription of the interviews. The interview group was balanced regarding the number of male and female participants. The authors did not note clients' reservations to answer questions fully with a representative of CARITAS present or with an educated interviewer present. This was evident in the many answers that reflected the clients' very personal opinions of the current state of interest rates, customer care, informal status, and the interviewer's accent. On the other hand, we do note that the threat of interviewees' potentially holding back information because of the presence of a CARITAS employee or an educated interviewer cannot be totally explained away.

15. The CARITAS loan portfolio, as of May 2003, included 5,463 urban clients (53.9%) and 4,760 rural clients (46.1%).

16. These very small general stores, with a retail space of about 10 feet by 10 feet, are called pulperías in Nicaragua.

17. Pulperías, farms, clothing stores, eateries, and butcher shops account for 39.0%, 25.0%, 13.3%, 3.7%; and 5.7% of the total amount of clients for CARITAS, respectively.

18. The minimum loan amount is $33.58 for each cycle; the maximum loan amount graduates from $134.32 in the first cycle to $537.27 in the eighth cycle.

19. CARITAS has a loan acceptance rate of 95.2%.

20. As Nicaragua's national income is highly skewed with a reported GINI index of 60.2 (Székely, 2001), our sample appears to be relatively better off than the lowest income quintiles.

21. A large minority of interviewees insisted that they shared the head-of-household duties with their spouse. This may, in part, be a legacy of the relatively improved standing of women achieved under Sandinista Nicaragua (1979-1990).

22. Appropriate level diagnostics reveal that multicollinearity is not present.

23. Again, tests for multicollinearity were negative.

24. On the other hand, Bastiaensen and D'Exelle (2002) found that strong patron-client relationships, particularly if operationalized through social networks, hindered MFI sustainability in rural Masaya, Nicaragua. Because CARITAS Matagalpa operates in an institutional environment similar to the "vertical-authoritarian patronage system" discussed by Bastiaensen and D'Exelle (2002, p. 49), other variables such as MFI management, clarity of mission and message to clients, location, and experience may moderate the ability of Nicaraguan MFIs to achieve sustainability.

25. Otero (1999) notes that the convergence between development and microfinance requires a deepening of the MFI reach through the formal financial system—that is, a maturation of MFIs from reaching the poor towards sustainability, and ultimately towards the creation of a formal financial institution.

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