DIVERSIFICATION OF PORTFOLIO OF A RURAL LENDER

This is an excerpt from Chapter 6 a work that documented the entities that were lending to the Global South. It is entitled Private Financing of Microcredit: The Models and Potential of U.S. Socially Responsible Investment in International Small Enterprise Credit. It is available for purchase from www.lib.umi.com/dxweb/search under number 9838812. Author: Carter Garber, Ph.D.

C. Adapting the CDLF Model to Nicaragua

The Nicaraguan Community Development Loan Fund (NCDLF in English or PRESTANIC in Spanish) is the first known case where the community development loan fund (CDLF) model, used in the U.S. and Canada, has been adapted and applied to a specific developing country. The previous section laid out eight changes that would have to be made for any viable loan fund to operate within the context of CEPAD, one of the largest NGOs in Nicaragua. This section deals with the CDLF model and how it was adapted to work internationally and within the Nicaraguan context.

The CDLF model has been articulated by the National Community Capital Association (prior to November 1996, it was named the National Association of Community Development Loan Funds) and its members. One of the founders of NCDLF had worked for thirteen years in community economic development in the
southeastern United States and was quite familiar with the CDLF model and some of its key proponents in North America.[1] He educated some of the leadership of CEPAD about the model and its potential. Even though doubtful as to its applicability, the CEPAD leadership permitted him to take time to elaborate how it might work in the Nicaraguan context.

The key features of the model, which have been articulated by the National Association, include: a mission of economic justice; the intermediary role; the lending role; the technical assistance role; and the advocate role.[2] The NCDLF founders were much in sympathy with the mission of providing funds so that poor entrepreneurs could achieve a greater control over the decisions that affect their economic lives. They understood that it would be difficult for Nicaraguans to achieve and maintain ownership of economic resources without having access to capital. Due to the lack of availability of those liquid resources to the poor at that time, there was a need to look outside the country to those who had savings and who might be amenable to lending some of those funds to help others help themselves.

The intermediary role is straightforward in the original CDLF model. One organization recruits investments from individuals and institutions and then pools the funds. It lends to micro and small entrepreneurs, or other community

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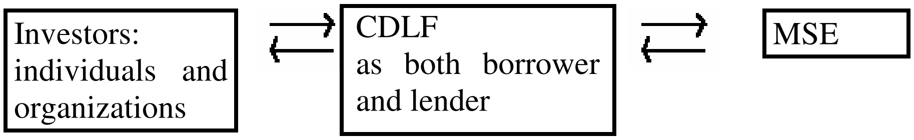
[1] Carter Garber, economist, had consulted about the CDLF model and SRI while he was director of the Tennessee Network of Community Economic Development and director of the Southern Neighborhoods Network.

[2] NACDLF. "Creating a Community Development Loan Fund," a chapter of Operations Guide for Community Development Loan Funds. Philadelphia, PA: National Association of Community Development Loan Funds, 1993. Now called the National Community Capital Association, it's address is: 924 Cherry Street, Philadelphia, PA 19107-2411; 215/923-4754; fax: 215/923-4755.

development activities like housing. Then it receives the payments of principal and interest monthly and pays the investors by the agreed upon schedule. The CDLF must be accountable to both sets of constituencies - the investors and the borrowers.

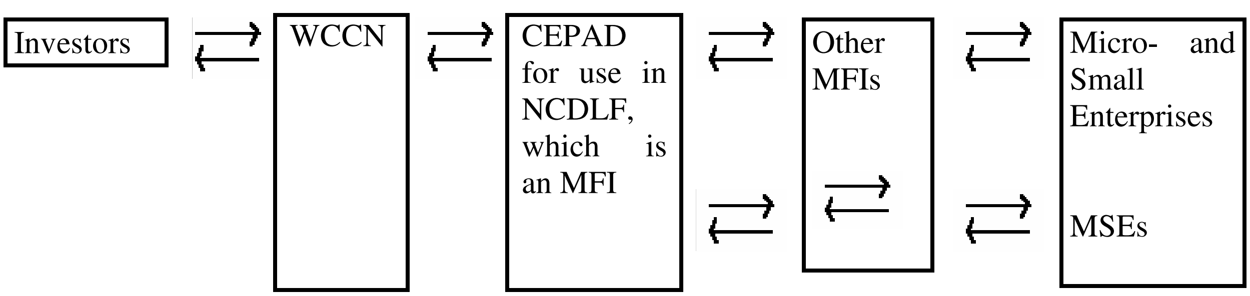
Figure 6-1: Community Development Loan Fund model



In the case of NCDLF, part of the innovation was to split the roles of borrowing from investors and lending to the low-income clients into two coordinated but independent non-profit organizations. As can be seen in the diagram below, WCCN took on the responsibility of being the intermediary between the U.S. investors and CEPAD, while CEPAD became the financial intermediary between WCCN and the Nicaraguan borrowers (whether they were the end users or other intermediary MFIs).

In the world of MFIs, it is usual for the northern partner to seek out a southern partner or create one in order to perform the lending role. In this case, the southern partner set out to interview potential northern partners. This process took place in the Spring of 1992, when CEPAD's representative interviewed some twenty potential partners in the United States. The candidates were basically divided into two groups: those who were already active as community development lenders and those who were familiar with Nicaragua. One community development bank was a serious candidate and was the subject of negotiations, however these did not materialize. Many of the CDLFs were very local in their focus and could not institutionally consider expanding to an international operation. Some felt that the untested idea of an international CDLF was too risky. CEPAD eventually chose the Wisconsin Coordinating Council on Nicaragua because of its decade-long involvement in solidarity and its concern about, and desire to work on, the economic crisis in Nicaragua.

Figure 6-2: Nicaraguan Community Development Loan Fund model



As established in the original 1992 Accord between WCCN and CEPAD[3], the two organizations agreed to divide the roles normally played by one CDLF. These roles were spelled out in detail and the Accord was updated in January 1995. WCCN is responsible for marketing to investors and donors, receiving investments and maintaining the legality under U.S. law, relending to CEPAD, and receiving sufficient funds back from CEPAD to pay the principal and

[3] Acuerdo entre WCCN y CEPAD sobre Prestamos para Desarrollo, signed in October 1992.

interest to each investor in a timely manner. CEPAD is responsible for providing detailed information to WCCN for the investors, paying for some of the U.S. costs of WCCN, and lending in Nicaragua according to some agreed upon professional criteria.

With the formation of the NCDLF, there was a series of other elements that were necessary to establish as part of the model so as to provide additional protection and assurance to the investors. They included:

1. careful decisions on making the loans; monitoring of each loan; ensuring that there was underlying collateral in case of problems with payback; rating the loans according to their record of payback and the perceived danger of non payment.
2. a strong loan loss reserve in case the underlying collateral was not sufficient
3. substantial equity, which is next in the line of defense, in case the loan loss reserve was insufficient to cover the losses. At least a 15% equity was required and CEPAD was committed to ensure that it did not fall below 20%. In recent years, there has been a strong attempt to increase the equity to about 35% of all the current capital in NCDLF.
4. the final line of defense in case the equity is insufficient is an institutional guarantee by CEPAD to repay WCCN even if the loan fund fails.
5. professional money management to insure that funds were not idle and were sufficient to meet the variable obligations to WCCN and the borrowers
6. good lending policies to insure that the funds were being borrowed by those who would pay back
7. a cash flow management that allowed prompt payback of the investors whether or not the borrowers were paying on time
8. a constant reminder to the staff that their salary was paid by low income borrowers who needed to receive good technical service
9. good communication with investors about the borrowers so as to maintain their social motivation

Among the key obstacles to borrowing in hard currency in a developing country are inflation and devaluation. It would not have been possible to mount NCDLF without the sharp reduction in inflation that occurred with the economic policies of President Chamorro's government in 1990-91. These followed the pattern begun by the Sandinista economic reforms of 1988 but it was impossible for those reforms to succeed in the midst of the inflationary environment of war.

The structural adjustment ironically made the NCDLF not only necessary but possible. The imposition of this set of macroeconomic policies by the Chamorro government, after it won the February 1990 elections, was done under the direction and insistence of the World Bank and the International Monetary Fund. The harsh imposition of the changes and the ambitiousness of the goals in Nicaragua surprised even proponents of this type of policies. The September 1991 signing of the Standby Agreement with the government put in motion actions that were called for as preconditions and conditions of the Agreement. There were targets for both the credit and reserves in the Central Bank.[4] These resulted in a massive and repeated withdrawal of funds from the National Development Bank (Banco Nacional de Desarrollo) as a measure to cut inflation that dried up credit to peasant farmers. In one action, over $30 million dollars was withdrawn leaving 67,000 farm families without credit. After the imposition of these policies, the amount of

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[4] Jonakin, Jon and Laura Enriquez. 1997. "The Non-Traditional Financial Sector in Nicaragua: A Response to Rural Credit Market Exclusion." Cookeville, TN: unpublished paper, 2.

land that received financing from the Development Bank was cut in half from the 1991-92 production cycle to the 1992-93 production cycle. This meant that over 162,000 acres that had received agricultural credit just the year before were left without credit.[5] Farmers and small businesses were desperate for credit. This national credit vacuum necessitated private efforts like NCDLF.

The resulting low inflation of 12% per year as a result of many macroeconomic policies made it possible for CEPAD to consider borrowing internationally. The national currency, the cordoba, was set on a daily devaluation schedule that was the daily fractional portion of the estimated one percent inflation per month.[6] These devaluation schedules were published by the government in advance. This allowed credit agencies to set debts in the cordoba equivalent of the dollar amount and to charge the daily devaluation in addition to the interest rate. This resulted in the borrower paying approximately 12% more per year for the loan and thus the principal maintained its value in dollarized terms. It was this mechanism that made it possible for NCDLF to borrow despite the inflation and devaluation. This pattern of calculation, which was very unusual in non-conventional credit when NCDLF started in 1991, became the pattern by 1994.

NCDLF's model obviously is vulnerable to radical changes by the government in either the daily devaluation or the rate of inflation. This caused NCDLF to carefully calculate the amount of the loan loss reserve it needs to cover loans that may go sour. It began with seeking collateral to cover 100% of the loans and has increased it to 150% of the loan value. The risk of devaluation and inflation also has caused NCDLF to gradually increase its equity to debt ratio. Finally, at times when it is rumored that inflation may dramatically increase or a massive devaluation may occur, NCDLF's management is careful to maintain a higher cash reserve than it would normally.

Finally, the macroeconomic policy differences between Nicaragua and the United States allowed NCDLF to become financially sustainable by taking advantage of the arbitrage of interest rates. Interest rates in the early 1990s in Nicaragua skyrocketed in real terms (taking into account inflation and dollar exchange rate). At the same time, interest rates were at a twenty year low in the United States. The founders took advantage of this differential to fund the staff and operations costs of the fund. NCDLF was operationally sustainable from the beginning in terms of the costs in Nicaragua and a fee paid to WCCN. It also was financially sustainable in terms of covering the costs of capital and the inflation costs. If imputed costs of capital (what it would have had to pay for Nicaraguan capital) are taken into account, it would not be financially sustainable. Thus, North American investors are key to its on-going success. Also, donations are still sought to offset some of the costs in the United States, to provide training to borrowers, and to build additional equity.

D. Capital Uses to Further Enterprise Development

This section examines the approaches of using the capital in Nicaragua that originated from the socially responsible investors. While part of the diversification was motivated by the desire to

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[5] Ibid, p.4. The original information is from Banco Central de Nicaragua. *Indicadores Economicos.* Vol., No. 12 (December 1995). It fell from 464,000 manzanas (about 325,220 acres) to 232,500 manzanas (about 162,750 acres) in just one agricultural season.

[6] This governmental practice began after the five-fold devaluation in 1991 and 20 percent devaluation in 1993.

serve diverse populations, the main motivation was the protection of investors' funds in the case of a failure in one economic sector or part of the country.

1. Diversification Rural-Urban and Geographically within the Country

The MFIs in Latin America and in many other developing regions typically have concentrated in serving the urban sector. There is a need for geographical diversification to rural sectors in which substantial numbers of the poor are located. The reasons given for the avoidance of rural lending are the increased transaction costs due to the sparse concentration of borrowers and the elevated risks associated with agriculture and animal raising. Also, many rural activities do not have the high profit margins able to be obtained in urban commerce. While it may be more costly, risky, and less profitable to lend to rural activities and to production, it is necessary if microcredit is to reach the majority of poor people in the world. Since much of a country's food production is rural, financing small entrepreneurs and farmers can increase that production and thus relieve the pressure to import such large quantities of food. The food produced in the rural areas needs to be transported and sold so that provides additional possibilities for enterprises which may need to borrow from the loan fund.

About 85% of NCDLF's loans are in rural areas which are not served adequately by any other lenders, whether non-conventional or conventional. This is motivated primarily by CEPAD's twenty-year commitment to serve a rural constituency. When it set its NGO priorities in the mid 1970s, CEPAD decided that the rural poor were more needy than the urban poor. Its leaders felt that by assisting the rural poor to develop their communities and obtain needed services it could help stem migration to the cities, which could not provide as well for the additional poor persons. CEPAD has maintained this philosophy even though the transaction and transportation costs are higher to work with these clients.[7] Agriculture is seen as risky and cannot pay as much interest rate as commercial activities. It is significant that NCDLF has decided to lend substantially to crops and livestock even though working with borrowed funds (which cannot sustain as much risk as donated capital).

There are several ways that NCDLF has served a rural constituency without excessively elevating costs or risks. Some of these strategies, such as lending at a third tier to other lenders in rural zones, will be discussed later. While it could be criticized for lending throughout the country with a small staff, NCDLF carefully has diversified its lending in agriculture to areas as far apart as the southern border with Costa Rica and the northern border with Honduras. It lends in the Atlantic Coast zone of Bluefields and Bilwi (formerly Puerto Cabesas) as well as along the Pacific Coast. This represents the four extreme directions of the largest country in Central America. This diversification of lending in different micro-climatic zones serves to minimize the financial risks to both the investor and the MFI.

2. Diversification of Economic Sectors of Borrowers

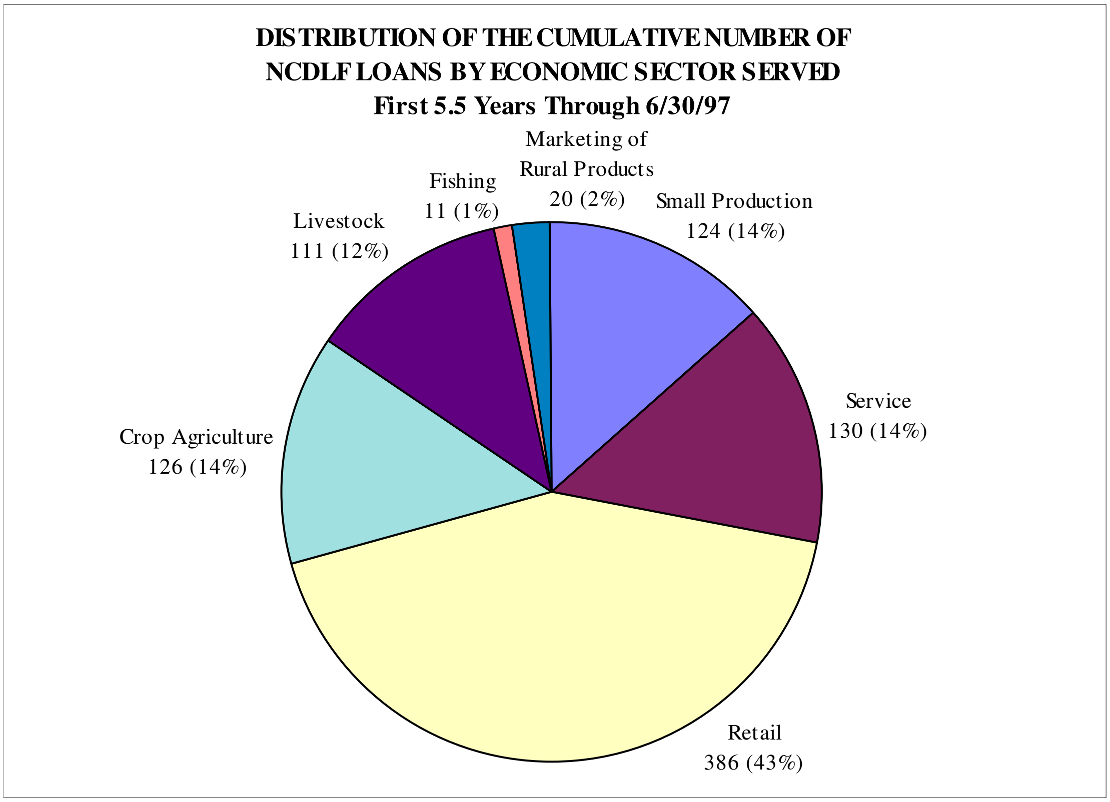
NCDLF chose to set goals for a permanent diversification of its lending to seven different economic sectors. These targets are reflected in its early reports and in its goals in the 1994-96 Plan. Its founders viewed this as important because

[7] Garber, Carter. 1988. *CEPAD's Development Philosophy and Models: The First Fifteen Years*. Managua, Nicaragua: CEPAD.

economic development of a community or country requires the credit stimulation of a variety of economic sectors.

The founders also designed the diversification as a protection of NCDLF assets while it is lending in a depression-like economy (in which 60% of the population is unemployed or underemployed according to governmental statistics). If a certain sector suffers a serious loss, due to a hike in gasoline costs or the entrance of a large competitor into the national market, for example, the loan fund could weather the losses due to its diversification in other sectors.

Figure 6-3: NCDLF Loans by Sector Served (6/30/97)[8]



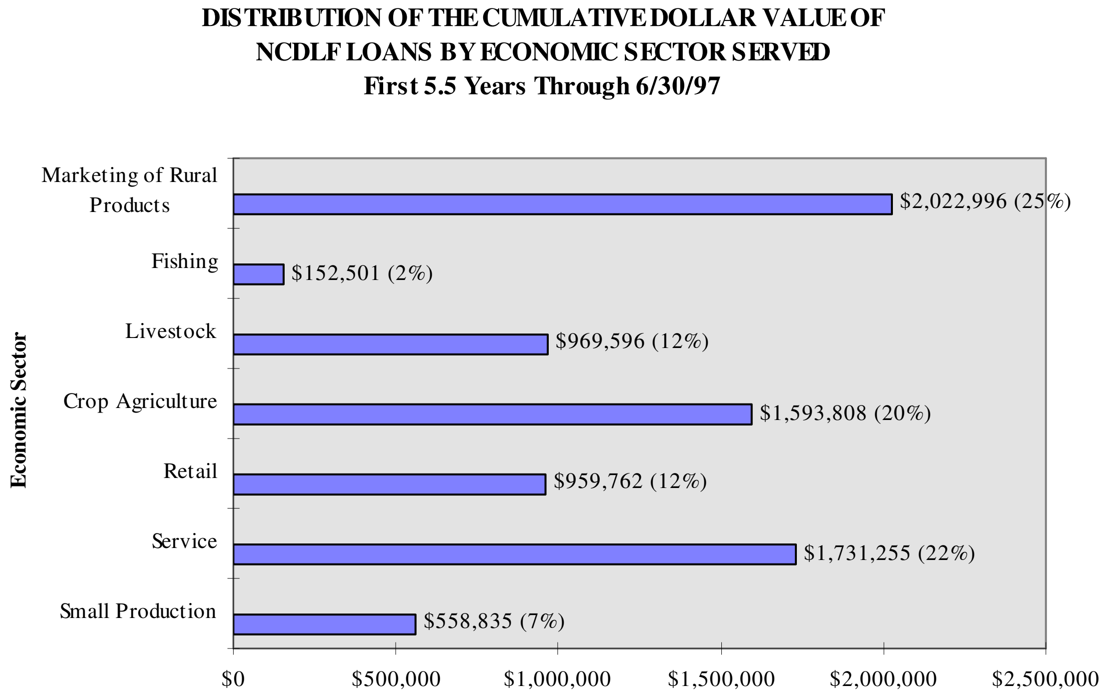
The NCDLF loan portfolio is highly diversified in seven economic sectors. As can be seen in the pie chart, retail is the largest single activity with 43 percent of the clients. However, it accounts for only 12 percent of the cumulative amount lent as seen in the bar chart below.

In the upper left quadrant of the above pie chart, there are 268 borrowers from four clearly rural activities (agriculture; livestock; fishing; and marketing rural products in a way that provides a fair price to the producers). These rural loans account for 29% of the total number of 908 cumulative borrowers by mid 1997. However, in observing from the bar chart below, these rural loans account for 47 percent of the cumulative dollar value of $7,988,757. One of those categories, marketing of rural products, accounts for only 2.2 percent of the borrowers but 25.3 percent of the funds. In rural areas, marketing is a key area of intervention to ensure that the farmers obtain the value of the goods produced. Some of the other borrowing activities mentioned in the pie chart such as agriculture, livestock and fishing are also heavily rural.

[8] *NCDLF Prospectus*, "Appendix A2: NCDLF Distribution of Loan by Borrower Type."

The bar chart below shows that of the cumulative dollar total lent during its first 5.5 years (until 6/30/97), 22 percent went to the service sector and 7 percent went to small production, which is often done in the back rooms of homes. These two sectors plus retail account for 41 percent of the dollar amounts and by their nature are highly diversified into different economic activities in different parts of the country.

Figure 6-4: Value of NCDLF Loans by Economic Sector (6/30/97)[9]



This deliberate diversification, which is monitored in every NCDLF report, is in sharp contrast to many microfinance institutions worldwide that lend the majority of their capital to the urban retail businesses in the informal sector. While some of these activities, like production and agriculture, are less profitable for the MFI in terms of interest rates charged than would be a concentration on retail, NCDLF has a commitment to supporting a variety of economic ventures of the poor.

3. Diversification of Lending Methodologies

While the best practices of the mid 1990s being articulated for MFIs call for a lender to have a few methodologies in which to specialize, the founders of NCDLF chose to experiment with a wide variety of lending methods. They envisioned that after a few years the institution would choose those that worked best and specialize in them. At its sixth anniversary, NCDLF had not yet clearly specialized in a few methods or abandoned any of the original lending methods.

The following table indicates the types of lending methods and the types of borrowers and their sectors in the economy. Usually an MFI will focus on microenterprise lending, with

[9] Ibid.

some loans to income generating activities and some small enterprises in the informal sector. It is rare to find a lender in a developing country that provides such a wide variety of services to differing sectors of the economically active poor as NCDLF. On the lowest end of the scale, its communal banks lend to persons with seasonal activities that generate income but do not constitute a microenterprise. It provides the full range of microenterprise and small business lending. On the other end of the scale, NCDLF is providing loans to other MFIs and associations that then lend to their members.

Figure 6-5: Lending Methodologies Used by the NCDLF

LENDING METHODOLOGIES USED BY THE NICARAGUAN COMMUNITY DEVELOPMENT LOAN FUND

<u>INCOME GENERATING ACTIVITIES</u>:
- Communal (or village) banks that on-lend for seasonal activities

<u>MICROENTERPRISE LENDING</u>:
- Communal (or village) banks for more permanent economic activities
- Solidarity circle lending (5 to 7 women as co-guarantors)
- Individual owners in the informal sector and lower end of the formal sector

<u>SMALL ENTERPRISE LENDING</u>:
- Individual owners in the informal sector
- Individual owners in the formal sector
- Collectives (which are not formally incorporated partnerships)
- Incorporated cooperatives
- Worker-owned factories, farms and businesses
- Alternative trading organizations and companies
- Non profit organizations for income generating activities

<u>SECOND & THIRD TIER LENDING</u>:
- Associations of cooperatives for on-lending
- Other NGOs for on-lending by their MFIs
- Regional offices of CEPAD for on-lending

In thinking about the sustainability of being able to maintain lending methods, it is important to examine the interest rates to the MFI for its work in lending. The typical microcredit method of solidarity groups charges the highest interest rates. For example, NCDLF charges three percent per month on these loans. Most MFIs charge high interest rates on communal bank loans but in the case of NCDLF the communal banks pay at one of the lowest interest rates. This is because they are independent entities. They charge the client 18 percent but borrow from NCDLF around eight percent. Most of the lending methodologies in the above table have in common being less lucrative to NCDLF in terms of the interest rate that can be charged to the client. NCDLF does not lend at a loss but makes a small margin on some of its lending to other MFIs or lenders. It makes up for that small margin by volume. It internally subsidizes its operation by charging higher rates to some who have more lucrative businesses. Even though some pay less, NCDLF has found that these methods have a significant impact on micro and small enterprise development while costing NCDLF less in staff and other operating costs.

4. Diversification of Loan Amounts and Terms

While most MFIs lend in a range of $50 to $300 to an average borrower, NCDLF has lent much larger amounts. Loans range from US$100 to US$300,000 each. NCDLF's loan policies allow up to a maximum of US$2,000 per worker-member of an enterprise. The average amount lent in 1995-6 was $7,114 per borrowing enterprise. Part of the reason for the higher averages are the inclusion of clients in formal sector businesses as well as the lending to other lenders.

Larger loans mean that a client can borrow to finance fixed assets and not just the working capital loans, which are typical of many MFIs. The loan terms are much longer with larger loans, thus allowing the client more latitude to develop the business and meet household needs. The disadvantage of the longer terms for MFIs is less income. This is because longer loans are generally at lower interest and there are fewer commissions since there is less rotation of capital in the same time period.

Is there a benefit to clients when NCDLF sacrifices interest and gives longer term loans? An example of longer loans for fixed assets of a microenterprise is the small bakery of Reina Monjez in Tipitapa about 15 miles to the northeast of Managua.[10] Señora Monjez learned her trade from her mother and has had her bakery for fifteen years. Prior to her relationship with NCDLF, she borrowed from an international microcredit lender using the typical method of small loan amounts, high interest, short loan terms, and only a small increment for the next loan. Señora Monjez found that she was only able to use the borrowed money to buy raw materials like flour and sugar since she had to repay the loan within three months. While working capital is helpful, she was not able to improve her business in a substantial way. Instead of a few hundred dollars for a few months, NCDLF lent her $2,000 for a year. Instead of paying 60 percent (five percent a month) to the prior microlender, Señora Monjez pays one third that amount in interest to NCDLF (20 percent annually). With this loan she was able to construct a new oven with double the capacity of her existing one. Her increased productive capacity, sales, and revenues permitted her to hire four new employees. The increased net income allowed her to buy a used vehicle and to hire her husband to be the driver. When he is not making bread deliveries, the husband acts as a part-time administrator to keep up with the additional supplies and payroll. NCDLF provided a second one-year loan of $3,000. This was an increase of 50 percent over the previous loan amount which is rare in microcredit that usually provides more gradual increases. While justified on the basis of not creating too much of an additional challenge for the borrower, it may be much more related to what a borrower can absorb in additional working capital if not afforded the chance to change technology and productivity. Microcredit lenders also hope to see progress in the household as a bi-product of their loans. In the case of Señora Monjez, in addition to business improvements, she had enough disposable income to rehabilitate her home, putting on a new roof, two new walls and tiling her floor.

Some of NCDLF's loan terms are set in relation to the amount of the loan and thus how long it would take for an entrepreneur in that particular type of business to pay off that amount with interest. When doing loans for fixed assets, some investments require many years to pay

[10] Data are from an article Shriver, Jeff. "Reina Monjez," *Nicaraguan Developments*, Vol.5, No.2. (Fall 1997). Madison, WI: WCCN, 6.

back. For example, to build barns and fences and pay that loan back through cattle sales may take a rancher four years. The payments from the activity cannot be more frequent than every six months. NCDLF cannot lend long term unless it has long term investments. Matching uses and sources was a problem for NCDLF management in the early years when the investors tended to lend for two to three years only. It was only in its third year after getting some longer term money that NCDLF could begin to make four to six year loans to borrowers. It also has to diversify the terms on new loans so that it is not giving out primarily medium and longer term loans or ones that have infrequent payment periods in a given period. By diversifying terms and doing careful cash management, it constantly has an income stream from borrowers' payments to meet the obligations to send funds to WCCN at least twice a year to pay investors, pay its own expenses, and to lend to new borrowers.

5. Diversification of Types of Borrowers

NCDLF has lent over $8 million to over 3000 Nicaraguan borrowers. Due to the diversification of lending methods and loan sizes and terms, there is also a wide diversification of types of borrowers. While including normal microenterprise clients like village banks, solidarity circles, and individuals, NCDLF also is lending to some different types of borrowers: cooperatives; small businesses; small farms; women's enterprises in the formal sector; worker-owned factories; associations of cooperatives; alternative trading organizations; and other MFIs.

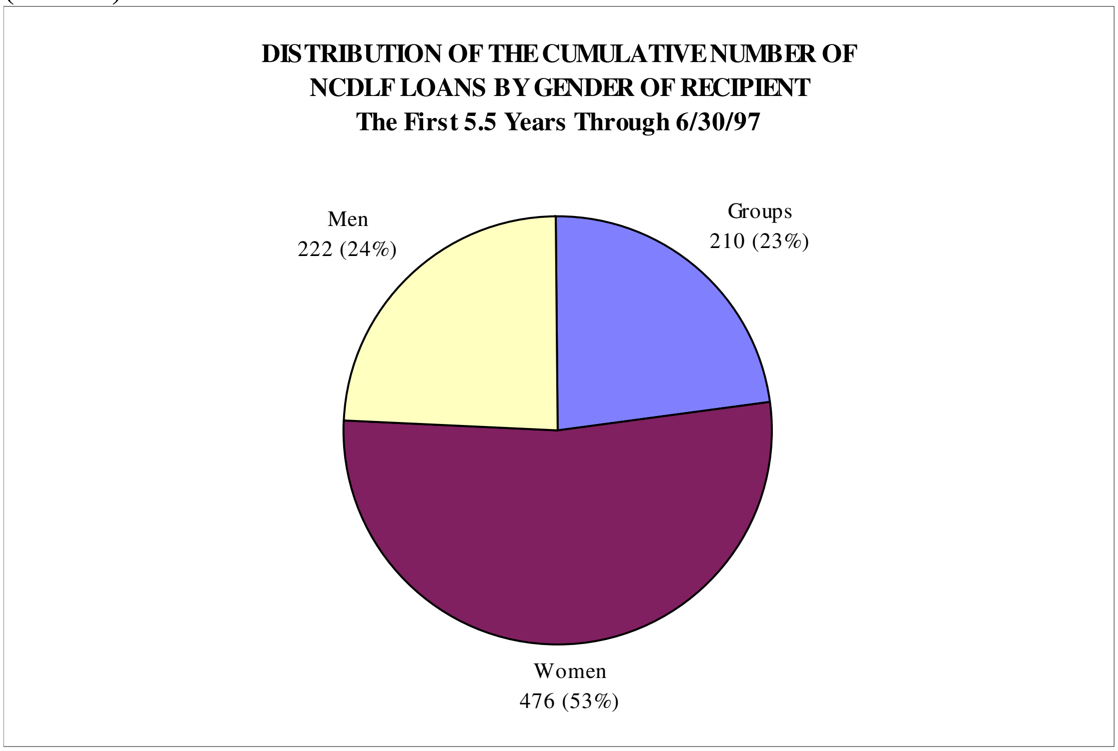
In a twelve month period (October 1, 1995 to September 30, 1996), 299 new loans were made for a total of US$2,127,009. While small businesses and cooperatives comprise only 25% of the clients, they represent 74% of the dollar volume of loans outstanding. Thus, while most microcredit funds lend only to individuals, peer groups, or communal banks in the informal sector of the economy, the NCDLF primarily is lending its capital to small formal sector businesses of low-income owners who are not able to access bank credit.

While NCDLF's borrowers number in the thousands, it keeps computerized statistics only on its loans from the central office. It counts a loan made to a regional office that then is going to lend to eight borrowers as just one loan. Thus, the centralized statistics undercount the loan activity. For the purposes of this study, the centralized statistics are used in order to obtain an accurate breakdown by gender, economic sector, and loan amounts. The total number of loans made by NCDLF's central lending was 908 by June 30, 1997, for a total U.S. dollar equivalent of $7,988,757.10. While lending is done primarily in local currency, all loans are made in dollar terms at the time of disbursement and are repaid in quotas at that day's current dollar equivalent. Thus, the amounts used in this document have been adjusted for the daily devaluation and inflation and are accurate in dollar terms.

6. Lending to Women Borrowers

The women's loan program has been expanded dramatically from 1995 to 1997, with a three-year grant for training, technical assistance, and equity funds from the Inter-American Foundation. Prior to NCDLF, CEPAD previously lent mainly to male farmers. This has been changed dramatically in NCDLF. As can be seen from the pie chart below, women borrowers represented 53 percent of the total of 908 cumulative borrowers as of June 30, 1997, while males are less than half that percent and number. However, the following bar chart shows that women have received just 15 percent of the dollar amount. This is due to the fact that although numerous, their businesses are still quite small and can absorb only small amounts of borrowed capital at any given time.

Figure 6-6: Pie Chart of the Number of NCDLF Loans by Gender (6/30/97)[11]



One of the ways to improve women's borrowing capacity is through specialized training in business development skills. NCDLF has made a strategic link with the Women's Economic Development Program of CEPAD's Gender Division.[12] The training provided by five women trainers to women entrepreneurs is then multiplied as these business women return to their communities and offer similar training to others in their area. This program helps participants to build business skills, self-esteem, and an analysis of gender roles.

A woman in the capital city of Managua, Rosaura Castillo, started out borrowing $700 for her market-stall business, where she sells grains, cooking oil,
soap, and a variety of other essentials. The second loan was for $1,000 and Señora Castillo decided that she needed to enroll in the new women's training program. There she learned how to keep books and manage her cash flow better. With her new capacity, she was able to triple the loan amount to $3,000. Now she has more than doubled that to $7,000 in her fourth loan. Without this training, she could not have run the type of business to borrow on the fourth loan

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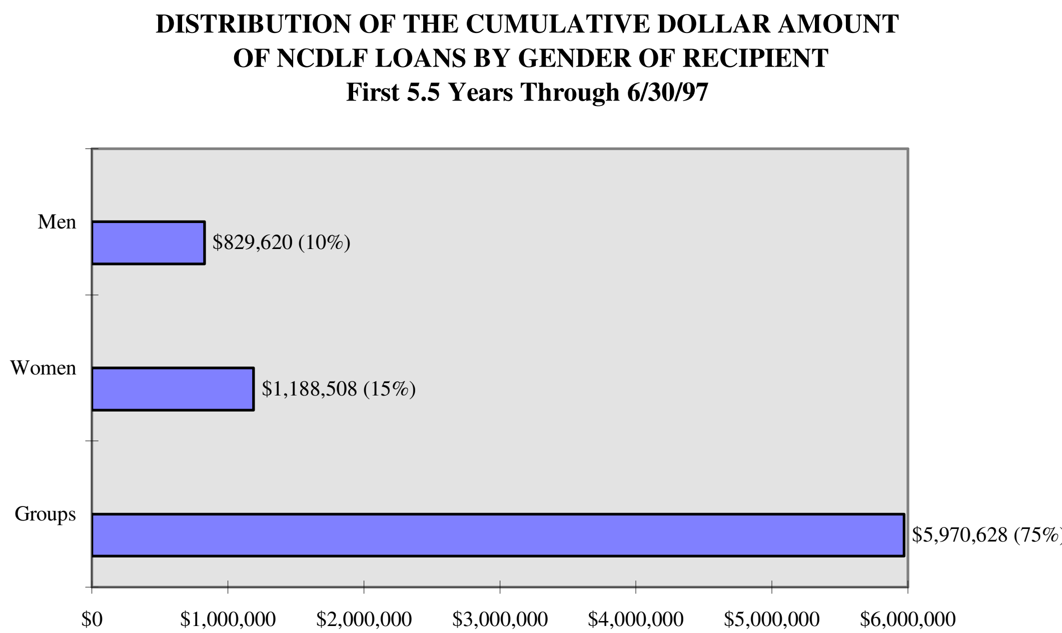
[11] Ibid.

[12] The founder of NCDLF later helped found this program to provide training to women who were potential borrowers. Due to the fact that the loan fund had to be financially sustainable on the interest income, it could not afford to provide these services. The women's program is funded by donations.

ten times the amount of the first one. And even better news is that she has set up a second business to employ her son, who was previously a drug addict, in a cheese retailing operation.[13]

Figure 6-7: Bar Chart of the Amount of NCDLF Loans by Gender (6/30/97)[14]



The above chart shows that women borrowers collectively received $358,888 more loan dollars than men. Women received 59 percent of the total dollar amount of the individual loans ($2,018,128.). From the prior pie chart, it was learned that when examining just the 698 cumulative loans to males and females, women represent 68% of these clients. The average loan amount for women is smaller than that for male clients.

The bar chart reflects that three-quarters of the amount of NCDLF's loans is directed to larger businesses than those run by individual entrepreneurs who can be categorized by gender. This pattern is by design of the parent organization, CEPAD, which has always put a priority on assisting the "organized poor" as opposed to programs designed to help one individual at a time.[15] Within this "group" category of borrowers are not only formal sector businesses but also informal sector businesses of non-family members who have joined together either informally (in economic collectives) or formally (in cooperatives and registered businesses).

One common microenterprise methodology is solidarity circle lending.[16] It is directed by NCDLF exclusively to women's groups. This helps increase the number of loans to women. An example is a relationship with a local NGO, Oyanka, in a former war-zone town called Jalapa

[13] Telephone interview with Ofelia Guevarra, NCDLF Director, on March 4, 1997.
[14] *NCDLF Prospectus*, "Appendix A2: NCDLF Distribution of Loan by Borrower Type" (6/30/97).
[15] Gilberto Aguirre, CEPAD's Executive Director, is quoted on this organizational philosophy of the organized poor as the engine of rural development in Garber (1988), 2-3.
[16] For a comparison of the Latin American and Grameen models of solidarity groups, see Chapter 6 of Charles Waterfield and Ann Duval (1996), 101-109.

near the Honduran border. The NGO provided a woman promoter and NCDLF provided about $55,000. There are nine solidarity women's groups of five to eight persons each. They borrow funds for periods as long as six months. Some of these groups have done so well in their initial several loan cycles that they have graduated to a level of more than $1,000 per woman borrower. This is unusual in peer lending circles, which rarely lend above $500. The larger loan amounts allow the women to buy fixed assets, such as a sewing machine or refrigerator, rather than just the short-term working capital loans (to buy supplies) that are common in solidarity lending.[17]

Another way that women are borrowing from NCDLF is through village banks that they run. There are loans to six majority female village banks in three regions of the country. By 1997, 459 women had borrowed from the village banks. Many loans were for livestock and agriculture. Begun two years ago, these have excellent payback records even though the majority of lending is done
by the poor to risky sectors, such as agriculture and animal raising. For example, the women's bank in Teustepe, a very arid community known for climatic disasters, surprised everyone with its record of less than half a percent of late payments during its first year and a half of operations.[18]

7. Transformation Lending

Much of microcredit simply assists in enterprise formation or expansion.[19] The larger amounts and longer terms allow for the possibility of what has been termed "transformation lending" to the "gray area" of microenterprise development: helping to move businesses from micro to small enterprises. Reed and Befus (1994) define this as moving to a small enterprise of greater than ten employees, producing more sophisticated product with more than the traditional technology, and working in a less competitive environment due to the higher hurdles for entry. The microcredit developer needs to make a combination of working capital and fixed asset loans, combined with training.[20]

This type of lending does not equate with formalization but may help some businesses to move from the informal to the formal sector. It means that some clients are able to "graduate" to other financial intermediaries like banks. It also means that the loan fund can increase or "graduate the size" of its loans as the
clients' businesses grow.

While some of NCDLF's founders sought to have the loan fund engage in transformation lending, there are few examples of the movement from micro to small businesses that the staff could point to during the first six years. There were more examples of microenterprises that had expanded sales and assets substantially or small businesses that had scaled up in sales volume, productivity and specialization.

8. Lending to Alternative Trading Organizations

Loans to alternative trade organizations (ATOs) are a way that NCDLF loans benefit multiple producers. With making only one loan, the transaction costs are lowered for the MFI

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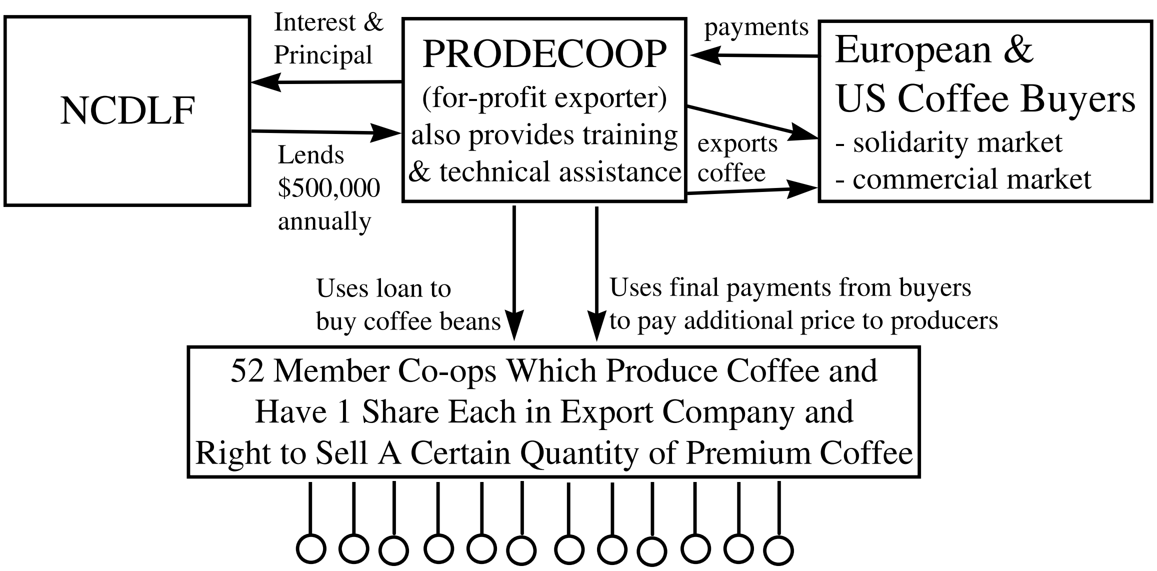
[17] Telephone interview with Ofelia Guevarra, NCDLF director, on March 19, 1997.
[18] Interview with Jaime Diaz, NCDLF loan analyst, on October 7, 1997.
[19] Boomgard, James J. "A.I.D. Microenterprise Stocktaking: Synthesis Report." A.I.D. Evaluation Special Study No. 65. Washington, DC: USAID, 1989.
[20] Reed and Befus (1994), p. 186.

while the intermediary ATO is strengthened. NCDLF has lent to several such borrowers and such lending accounts for ten percent of the dollar amount of its overall cumulative lending.

During 1994-98 NCDLF has lent a half million dollars each coffee season[21] to a single borrower, Prodecoop, an export company which is owned by 52 coffee-producing cooperatives. These loan funds were then used to purchase export quality coffee at local market prices from 2,650 small coffee producers, of which 860 are women. These producers represent at least 10,000 family members benefiting from the single NCDLF loan. These member cooperatives are made up of ex-Contra and ex-Sandinista soldiers in a former war-zone region. The coffee is processed and exported to the fair trade markets in Europe and North America. These buyers pay a price above the world market
price because they market to northern consumers who are willing to pay more at the supermarket for coffee that is certified to be grown under fair conditions to the producers. The payments for the coffee are used to pay back the NCDLF loan and to provide an additional payment per sack to the original producers.

Figure 6-8: Loan to Prodecoop for Exporting Fair Trade Coffee



2500 Coffee Producing Members of Co-ops
(The half a million dollar loan represents $200/member or the ability to purchase about 200 lbs of coffee from each member.)

In January 1994, NCDLF began lending to the month-old Prodecoop coffee company at a time when no other lender was willing to take the risk. Now other lenders, including commercial banks like the National Development Bank, have come in to support this company and its productive network that makes a big difference in the lives of thousands of poor families. According to Merlin Presa, current director, Prodecoop continues to borrow because NCDLF is able to respond more quickly than other lenders. She says this is worth paying the 16% interest

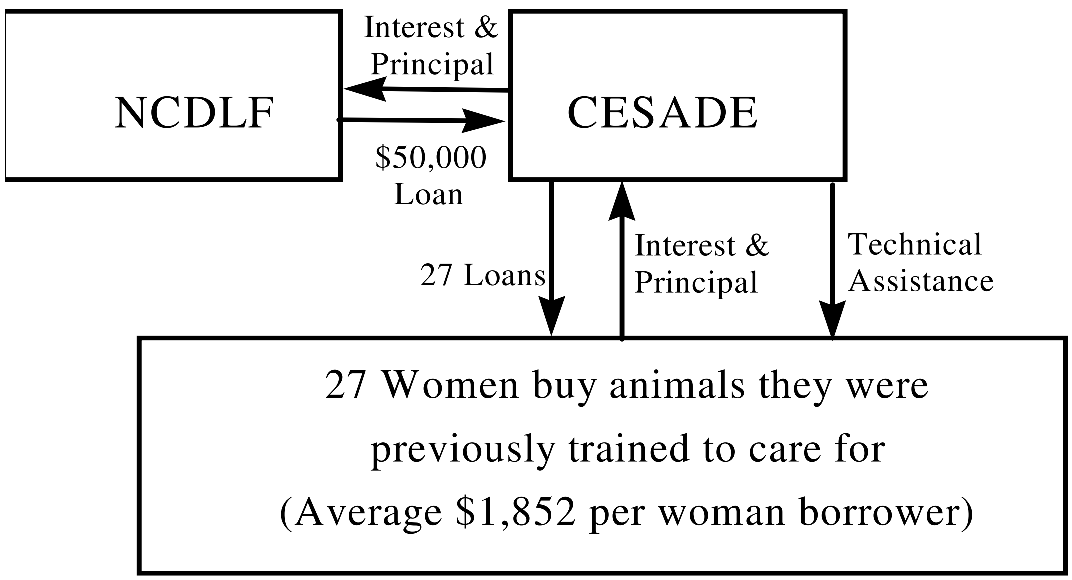
[21] Approximately November-August for each of the 94-5, 95-6, 96-7, and 97-8 coffee picking and exporting seasons.

even though many of its NGO sources provide cheaper loans.[22] The previous director who developed the lending relationship with NCDLF, Rosario Castillon, agrees and indicates that other terms of the loan are slightly better than other coffee lenders. NCDLF's quick disbursement process allows for the use of the funds at the beginning of the coffee season when the low-income producers are tempted by other offers of quick cash for their newly harvested product. In latter years, NCDLF has advanced funds before the actual picking so that they can be used for buying baskets and paying labor of the harvest. The loan supervision has lessened as NCDLF has gained more confidence in the ability of the borrower to run its business well and repay on time.[23]

9. Wholesale Lending at the Third Tier to Other NGO Lenders

Another way to extend the benefits of a loan program while keeping transaction costs low is to be a second or third tier development lender. An early strategy of NCDLF was to "wholesale" loans to other financial "retailers." NCDLF is bringing socially responsible funds to Nicaragua and then lending them to other MFIs. This not only makes it possible to reach borrowers beyond the NCDLF network, it also builds the credit record of these other lenders so that they can later be able to borrow from larger sources.

Figure 6-9: Loan to CESADE, an MFI lending to Rural Women



In the diagram above, NCDLF lent $50,000 to the NGO, CESADE, which broke this into 27 loans for women entrepreneurs, who had been previously trained in animal raising by a technical department of CESADE. The women bought the animals with their loans and then

[22] Interview with Merlin Preza Ramos, Prodecoop director since April 1997, on November 15, 1997. As a comparison, Solidaridad and EDCS charge 9 percent while the World Food Program charges 10%. Solidaridad provides $60,000 and the World Food Program $75,000 so these are only 15% of the amount provided by NCDLF. EDCS provides capital for while NCDLF's loans are working capital.

[23] Interview with Rosario Castillon, director of Prodecoop from December 1993-April 1997, on November 14, 1997.

received on-going technical assistance in the care of the animals. As the women pay back CESADE with principal and interest at 18 percent per annum, then CESADE pays back NCDLF at 13 percent per annum. The 5 percent spread covers the cost of CESADE's MFI functions. NCDLF, which had paid the investors a maximum of 6 percent for the funds and paid WCCN another 1.5 percent for its work, received a spread of 5.5 percent to cover its operational costs and contribute to its loan loss reserve.

Development finance professionals have become wary of the practice of a lender also providing technical assistance and help in animal or crop selection because if the advice proves to be wrong the borrower has a justification not to repay the lender. In this case, CESADE faces this conflict of interest but NCDLF as a third tier lender does not. CESADE must repay the loan to NCDLF even if all the animals die. NCDLF did not accept as its collateral the animals, which were pledged to CESADE as the end borrowers collateral. Instead CESADE pledged to NCDLF all of its office equipment.

The loan in the example was not a typical second tier loan for NCDLF since it had a six month term. It was made when a European donor failed to provide the funds on time and was repaid when the expected funds finally arrived. The women had been trained with a previous grant and the end of the rainy season of 1994 was approaching. CESADE knew that if it did not allow the women to buy the animals during the rainy season when there was grass, it would be extremely difficult for the project to succeed during the coming dry season when the donor's bureaucracy would free up the funds. If CESADE had not borrowed, the clients who were trained would have been upset at the NGO for all of the hours in workshops with no final economic results for their families. So it was better for CESADE to borrow funds from NCDLF than to let the project fail due to bureaucratic delays in the second funding cycle. This is typical of the challenges facing both NGOs and development lenders and shows the need for flexibility and agile disbursements by the MFI doing this type of creative lending.[24]

Two major 18 month loans have been made to CESADE from NCDLF. These were made in the form of lines of credit since CESADE did not want to borrow all the funds at once and only borrowed from NCDLF when it had approved borrowers to whom to lend. In 1993-94, CESADE had a line of credit of $75,000 and borrowed $64,000 total during the 18 month period. In 1997-98, CESADE borrowed $57,000 for terms of 12 to 18 months. Most of these funds were lent to women for small-scale retail, production or agriculture. CESADE lent at 18% and paid to NCDLF at 13%. Both MFIs received about a 5 percent spread and the borrowers received funds that were at or below Nicaraguan market rates. Most of these borrowers would not be subjects of credit at Nicaraguan banks. Alan Fajardo, CESADE's Executive Director, states that the lending relationship has been quite satisfactory and strongly advised that NCDLF "should do more third tier lending as a resource to NGO lenders."[25]

10. Lending to Communal Banks and their Savings and Loan Coops

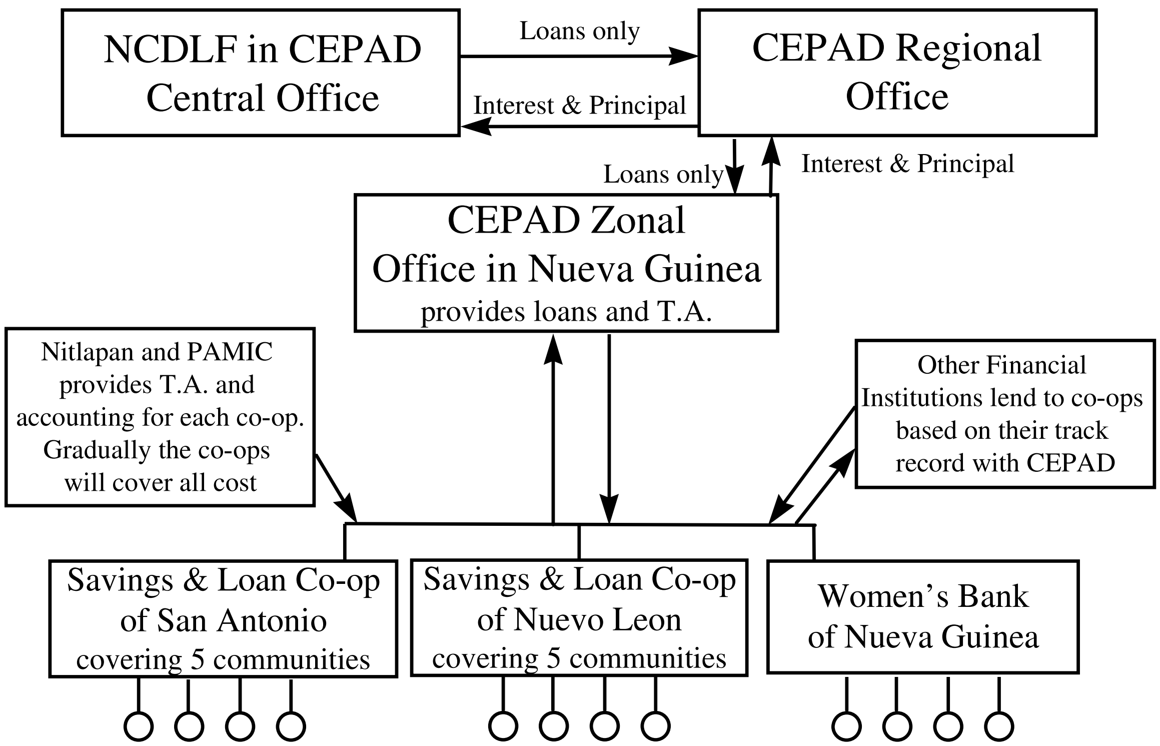
NCDLF has lent to communal banks in several parts of the country. Since this is a common method of microfinance lending that has been documented elsewhere,[26] the details will

[24] Review of borrower file and interviews with NCDLF and CESADE staff in Nicaragua in January 1997.
[25] Interview with Alan Fajardo and Leonardo Bustos, CESADE's lending director, on November 18, 1997.
[26] Candace Nelson et al (1996); Charles Waterfield and Ann Duval (1996), 110-128; Christy Stickney et al (1997) is a how-to manual for a variety called trust banks.

not be discussed in this document. What is worth discussing is NCDLF's development of an additional organizational layer as a formal local financial intermediary.

In the diagram below, the Savings and Loan Co-op of San Antonio is composed of five communities, each of which has a communal bank. Eligible persons in the communities are able to borrow based on a peer lending guarantee. If the individual needs to borrow more than $1,000, he or she must put
up a material guarantee in addition to the co-guarantee system. This part is common to other communal banks. However, what is not common is that the five communities have linked together to form an incorporated entity that is registered with the government as a savings and loan cooperative. This local MFI is the entity that borrows from the zonal office of CEPAD, which received its funds from NCDLF through its regional office of CEPAD.

Figure 6-10: NCDLF Loans to Two Saving & Loan Coops and the Women's Communal Bank in Nueva Guinea



Small loans to individuals in the community who are also saving in the communal banks (Lend up to $1,000 without registering guarantees).

The Savings and Loan Co-op of Nuevo Leon, in the bottom center of the diagram, operates in the same way as San Antonio. Each loan committee and the board of each savings and loan cooperative are made up of representatives of their five member communities. The screening of the loan applicants happens at the lowest level (in each community) so that the transaction costs at the cooperative level are low. By banding together five communities, there is sufficient scale to be able to employ a full-time bookkeeper in each cooperative. The scale has allowed each cooperative to acquire its own building and a safe to protect the loan guarantees, like land titles, from fire or theft. The irony is not lost on the campesino borrowers that one of the cooperatives is housed in the former building of the National Development Bank, which closed its branch under pressure from the multi-lateral institutions which claimed the branch could not be profitable. These weather-beaten farmers with little formal education have found that they have proven the highly educated lenders wrong.

Unlike the case of the communal banks which operate as informal sector entities, these savings and loan cooperatives are formal sector entities that are regulated and have accessed credit from other sources like commercial banks. They also receive independent technical assistance from a variety of providers.

The scale of the lending to these two cooperatives is much greater than that of the usual microfinance lending to communal banks. In the case of the San Antonio Cooperative, $40,000 was lent by NCDLF in May 1995. This was followed by a $50,000 loan in November of 1995 for the third planting season, which is very productive in this rainy region. The following May 1996, $100,000 was lent. In October 1996, the cooperative borrowed $137,000 from a commercial bank called BanCentro. This allowed NCDLF to reduce its commitment to this borrower and to lend $26,818 in November 1996. The cooperative currently has 251 members, 20 percent of whom are women. The total portfolio in the Spring of 1997 was $305,000, with 67 percent lent to animal raising, 32 percent lent to agriculture and only one percent to retail. Not only the volume of lending but also the heavy lending to agriculture and animals is unusual in communal banking. There have been some late payments due to crop problems but outside consultants have assisted the volunteer board to address the situation. Some of the NCDLF loans are for 18 months, which allows the lending to animals. The commercial bank loans are for 6 months and are used for agriculture.

The Women's Bank was a later addition when it was felt that the two rural cooperatives did not adequately address the needs of women in retail and particularly those in the town of Nueva Guinea. Of the initial 40 loans, 91 percent were retail, seven percent were service, and two percent were for agriculture.[27]

11. Creation of New Lenders by Third Tier Lending

Not only does NCDLF lend to other lenders, it actively has sought to encourage other organizations to add lending to their list of services. While some may view this as setting up competitive entities, NCDLF views this as a way to lower its own transaction costs and to set up borrowers which will be on-going clients for its funds. Loaning to associations of cooperatives, which lend to their member coops, which in turn lend to their individual members means that NCDLF does not have the costs of dealing with the end borrowers. The association and the coops as lenders pick up those costs. Thus, NCDLF is able to lend in remote rural areas without having to increase substantially its staff and other operating costs.

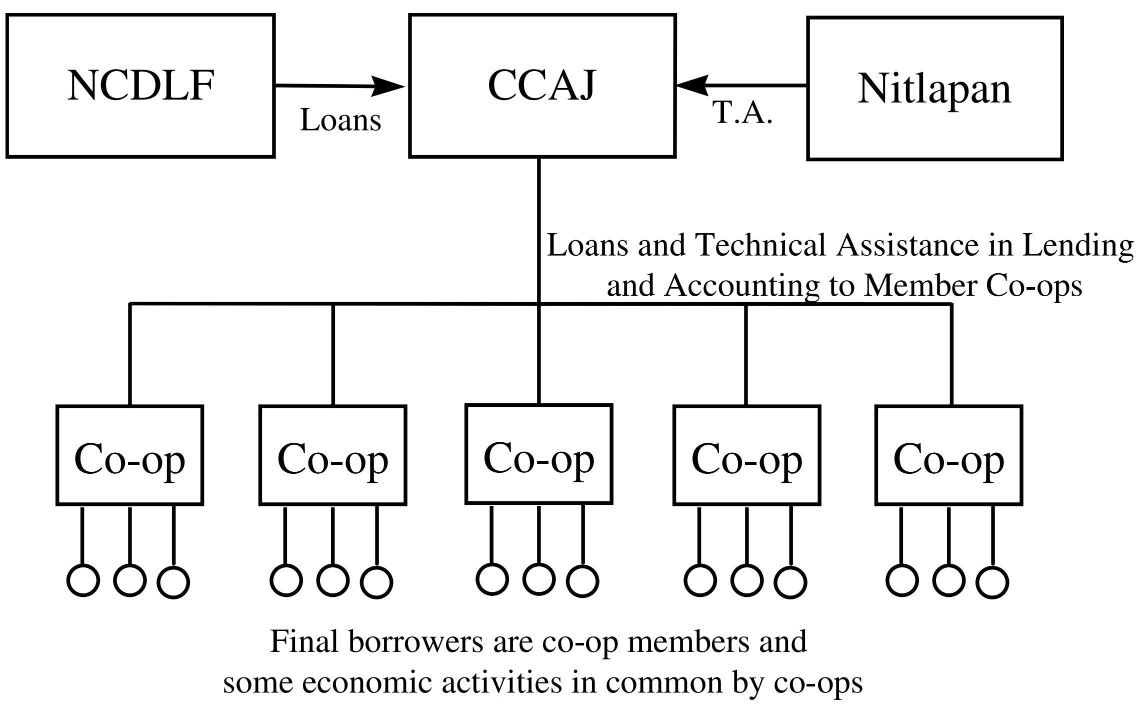
The actual number of borrowers and beneficiaries is much greater than the formal number of "borrowers" due to the methodology of "wholesaling" loans to other lenders, which then "retail" to the end borrower. NCDLF has actually made only about 1000 loans in its first six years but this has resulted in at least three times the number of actual loans due to the practice of wholesaling.

[27] Data is from the borrower files, NCDLF reports, and an interview with Jaime Diaz, NCDLF loan analyst in charge of communal bank lending, on October 7, 1997.

An example of this creation of new MFI lenders occurred in the Spring of 1993 when the Association of Agricultural Cooperatives of Jalapa (CCAJ - Conjunto de Cooperativas Agropecuarias de Jalapa) approached NCDLF for separate loans to each of its 12 member cooperatives. As a Managua-based lender that had formed only fifteen months earlier, NCDLF was not in condition to lend to individual cooperatives along the Honduran border, a long day's drive away.

These cooperatives had been cut off from credit by the only bank in the region, ostensibly for non-payment in full of previous loans. There were no other conventional or non-conventional lenders serving this conflictive zone despite the fact that it is a bread basket agriculturally. Given the fact that without loans, these farmers would not be able to plant and harvest to eat, NCDLF as a development lender tried to assist. Its staff told CCAJ that if they were willing to transform themselves into a lender for their member cooperatives and pledge their own assets to cover the loan, NCDLF would make the loan. Another condition was to obtain technical assistance in changing its accounting and setting up loan committees. Faced with the deadline of the approaching rainy season in May, CCAJ staff returned to Jalapa to consult each of its member cooperatives and its constituent assembly to see if the membership was willing to take on the risk of launching this new lending activity. After a long series of meetings weighing the change from an advocacy and farming assistance group, CCAJ decided to create a lending function. This meant that each of the member cooperatives also had to create loan committees to lend the funds they received to their own members. It was a massive education process to retool the organizations but faced with the shut door of the local bank, this seemed like a longer term solution to the perennial credit problems of their farmers.

Figure 6-11: NCDLF Loans to CCAJ, which on-lend to Member Cooperatives



The first loan in May 1993 was for $14,478. CCAJ re-lent the funds to their coops who lent to their members for corn, beans and coffee. The eight month loan term of NCDLF (as opposed to the usual four month term at the bank) allowed CCAJ to store the crop and then sell it during the dry season when the prices were the highest. The second loan was for $10,723 for the second planting in September 1993. The next loans were larger and some for coffee plantation renovation were for as long as 18 months. CCAJ gained a reputation for being a local lender in the agriculturally rich valley and non-member coops began to borrow. Its positive credit record with NCDLF and its reputation for being a hands-on lender led to a $50,000 loan for coffee from a new United Nations-Nicaraguan government sponsored rural loan fund, which was managed by a commercial bank. Rather than feel the entrance of other lenders as a threat, NCDLF viewed it as a positive step of CCAJ away from dependence on it. In addition, with the positive results of the harvests, the cooperatives used some of the profits to gradually pay off the pending bank loans. This allowed further diversification of the sources of credit for the valley's cooperatives. Thus, the loans from NCDLF not only helped farmers grow food, but provided a way for them to create and own their own lending operation, develop a solid reputation as a lender, and to turn their credit back on at the local bank.[28]

E. Balancing the Financial Sustainability of the Client and the Lender

This section is directed to balancing the microfinance institution's sustainability with that of the clients' sustainability. Much of the academic and professional literature in the field is focused on achieving the financial sustainability and profitability of microfinance institutions. Higher interest rates and commissions, and shorter terms for faster rotation of capital are encouraged. There is much less concern expressed about the sustainability of the client's business or the inherent trade-off that with higher rates there is a potential of the client decapitalizing his/her business in order to maintain his/her good credit record with the MFI. Even though there are plenty of examples of this, there is no estimation of the extent of this trade-off to the deficit of the client. There is relatively little counsel in the literature against shorter terms from the perspective that a client needs more than working capital. How that client is going to attain longer loans to build business assets and acquire new technology to increase the productivity, product diversity and competitiveness is not often addressed in manuals for microcredit lenders.

This trade-off is clearly seen in the example of Reina Monjez, described in Section D.4. of this chapter. The MFI from which she had borrowed previously had charged her 60 percent annualized interest rate in real (dollarized) terms. She found that the short-term working capital loans were useful but she could not advance in her business. The international MFI, which had received the majority of its loan capital from donations, found the relationship with Señora Monjez extremely profitable and it aided greatly its own sustainability. In contrast, when Señora Monjez began borrowing from NCDLF, she encountered a lender that was willing to balance its own sustainability with hers. They charged 20 percent real interest annually, which is enough to comfortably pay all of its operating costs and pay back its investors even at their highest interest rate of 6 percent. NCDLF assured its own sustainability by not charging as high as the market would bear assured the sustainability of its client. Reina Monjez was assisted by the longer term loan (12 months instead of 4) and larger amount ($2,000 rather than $500) from NCDLF. She also kept the additional 40 percent (the difference between the previous 60 percent charge and the current 20 percent interest) to plow back into her business. The additional margins made the difference that allowed Reina Monjez to construct an oven twice the size and thus increase her

[28] Interviews with NCDLF and CCAJ staff, borrower records and NCDLF reports.

productivity, sales and revenues. This permitted her to hire four new employees, buy a used vehicle for distribution, and rehabilitate her home. All this progress was possible by the lender balancing its sustainability with that of the borrower. One wonders how much more progress could be made to build assets and eliminate poverty if other MFIs adopted a practice of not charging whatever the market would bear and putting their own sustainability above everyone else's sustainability.

F. Cross Subsidization of Loan Products Key to Sustainability

If an MFI follows the NCDLF model and maintains a mix of diversification of clients, economic and geographical sectors, lending methodologies, and loan amounts, the ones that are less profitable can be subsidized by the ones with higher interest rates. Similarly, the lower interest of the socially responsible investments can allow the ability to maintain less profitable lending interventions and/or complementary business development services. This internal subsidy system can allow a mix of loan products, borrower activities, and geographic areas while still prioritizing the operational and financial sustainability of the lending institution.

NCDLF is able to internally generate (from the interest it charges the borrowers) all of its operating budget in Nicaragua and most of its budget in the United States. The Nicaraguan Loan Fund early on reached "operational sustainability" in the sense that total earned income (not including grants) covers all direct costs in Nicaragua (including salaries of a staff of seven Nicaraguans), as well as the cost of capital from investors, a fee to WCCN, a monthly contribution to loan loss reserve, and occasional contributions of retained earnings to equity. NCDLF also charges sufficient interest rates to cover the cost of inflation and devaluation. Nicaraguan currency is devalued at roughly the same pace as inflation (one percent per month). This additional percentage is charged to borrowers so as to maintain the fund's value in dollar terms. NCDLF has yet to fully achieve "financial sustainability." Donations are still needed to cover partially the two staff persons in the United States, training and technical assistance to Nicaraguan borrowers, and to add to equity. While NCDLF covers the normal understanding of imputed capital to maintain value, if a rigid formula to impute the cost of capital is used as if NCDLF had to pay for its capital at the current market costs in Nicaragua, NCDLF would not be financially sustainable. It is sustainable now because of the lower cost capital from its socially responsible investors.

NCDLF is unusual in the realm of MFIs in paying a cost of capital and covering inflation and devaluation from its beginning. There are few MFIs in the world that have paid a quarter-million dollars in interest and maintained the value of their fund during a five and a half year period. NCDLF is doing so without screening out the less lucrative clients that many sustainability-seeking MFIs chose not to serve, such as those in agriculture and production. It has not had to be donation subsidized to do so. The NCDLF model has employed a system where the more lucrative lending methodologies subsidize the lower interest ones.

While the source of socially responsible investors in North America has been crucial to the success of NCDLF, these northern funds are not sufficient for a long-term operation. It is essential that the Nicaraguan borrowers develop their own assets and savings that will provide them with capital for future operations. In addition, as the businesses grow, NCDLF has encouraged them to access local bank financing. In several cases, NCDLF has continued to loan in a complementary fashion with the bank, taking more risk as is customary in development lending. NCDLF also has lent at below market rates to several other MFIs to help them develop their internal capacities to be able later to handle other more expensive borrowed funds.

This lower-cost solidarity capital from Northern investors has been essential to the success of NCDLF. It allowed it to become operationally and partially financially viable. NCDLF has been able to lend over $8 million dollars without any major grant, other than to the equity that it retains. It allowed NCDLF to finance less profitable but necessary economic activities, like agriculture. It helped subsidize business development services like training and technical assistance to women entrepreneurs. It has been critical in providing the discipline so that NCDLF and its MFI borrowers could now transition to more market-rate sources.

Although there are some macroeconomic conditions in Nicaragua that are somewhat unusual, like the daily predictable devaluation, the majority of the situation and conditions spelled out in this chapter are applicable to many countries. Many elements of the NCDLF model and its model of multiple lending methods which cross subsidize one another would be applicable elsewhere in developing countries.

G. Review of Chapter

This chapter covered a substantial amount of material about the uses of SRCI for microcredit and small enterprise credit by the lender in the case study, the Nicaraguan Community Development Loan Fund. The first section described eight steps of the transformation that were needed to move from a PDO lender to create a new MFI based largely on SRCI capital. The second section described the innovative process of adapting a North American model of the community development loan fund to a Nicaraguan context. This was the first successful international application of the model, with the investors in the United States and the lending in a developing country.

The third section of the chapter described and analyzed eleven different uses of SRCI capital to further enterprise growth and development. In order to protect the investments in its difficult environment, NCDLF diversified heavily in terms of types of borrowers, economic sectors, geographical areas, lending methods, and loan terms. It proactively sought to use the extra margin provided by the lower cost SRCI capital to lend to clients which were not able to pay as much interest rates because they were involved in lower paying sectors such as agriculture and production. In addition, it used the margin provided by SRCI to lend in second and third tier manner to other lenders, which also needed part of the spread to make their operations sustainable. In summary, NCDLF was able to lend to clients that it could not have if it were using commercial rate funds. It even was able to create clients which act like MFIs, on-lending to microenterprises and small enterprises.

The fourth section of the chapter looked at the balance that NCDLF tries to maintain in its lending between fostering its own sustainability as an MFI and supporting the sustainability of its borrower's businesses. The final section examines how NCDLF combines its more profitable lending with lendng in which it proactively accepts a lower interest rate to create an internal cross-subsidization so as to achieve operational sustainability and move close to achieving financial sustainability. This research finds that NCDLF is able to cover its operational and financial costs, while maintaining the value of its funds despite inflation and devaluation. It is able to do this without screening out less lucrative clients. It does this less profitable lending even while not receiving any substantial donations. NCDLF was able to achieve this through interest rates that differ by the borrower's economic activities and by having SRCI funds as the majority of its capital. While there are conditions unique to Nicaragua, the NCDLF model demonstrates the multiple creative development finance uses that can be achieved with SRCI funds.