



# SOSTENICA Update

Sustainable Development Fund of Nicaragua

## Spring 2010

### Holding Our Feet to the Fire

As SOSTENICA prepares to celebrate its 10th anniversary, a delegation of staff and board members recently spent one week in Nicaragua meeting with our borrowers and colleagues to chart a "sustainable future" for the organization, our investors, our borrowers, and for Nicaragua. From its inception, SOSTENICA has had two main goals. First, from a social justice perspective, we have aimed to give lower income Nicaraguans an opportunity to realize their productive dreams by giving them access to credit and technical assistance, sharing with them the risks and vagaries of the "free" market, while providing our investors with the satisfaction of participating in a noble endeavor with the possibility of receiving a modest, but honest, return on their investment. Second, from an environmental perspective, we have aimed to use credit as a tool for enhancing natural systems and bio-diversity.

At the outset, we knew that the odds were against us. Servicing small rural loans is expensive, risky, and not highly profitable, which is exactly the reason commercial banks have no interest in extending these loans. We also recognized that the free market rewards those who "externalize costs" -- economics lingo for forcing real expenses onto other systems, living and non-living. An easy example of an externalized cost would be a leather tanner who dumps untreated chemical waste into the Rio Chiquito, rather than assuming the expense of processing and treating effluent to a point of zero waste. SOSTENICA/CEPRODEL supports those tanners (and others) who agree not to externalize their waste onto the community of life. While every dollar (or Cordoba) spent appears to increase one's ecological footprint, SOSTENICA

persists in pursuing its idealistic mission, joined by hundreds of supporters and investors, to promote social justice AND ecological consciousness.

What we found during our annual meeting was heartening. Through agility and advanced planning SOSTENICA/CEPRODEL has weathered the current economic crisis. A large loan loss reserve and capital equity enabled the organization to survive the global market slump. One element of the slump hit many of our rural borrowers the hardest. Since the earliest days of recorded history, rural people have held their surplus, their reserves, not in cash or savings accounts, but in livestock. A hog or a cow with adequate pasture and water is a guarantee for a country person, that in case of emergency there will always be something (continued on page 2)



*Client Yamilette Morales, Las Limas.*

*Holding Our Feet To The Fire (cont. from page 1)*  
to eat in tough times, or a quick wad of cash, when something needs attention.

Given the high demand for beef in the region (especially the demand from Honduras and Venezuela), borrowing money to buy feeder calves that could be fattened during the rainy season, then sold for a tidy profit to repay loans and prepare for the next round, made good economic sense. While cattle may not be good for the environment, they made sense in the Nicaraguan economy, until the crisis hit. For SOSTENICA's borrowers, the crisis was two-fold. When the military coup removed President Zelaya from office in Honduras, the border between the two countries closed. Buyers who used to arrive with their trucks to take cows back to Honduras stopped showing up, reducing the market. At the same time, the price for beef fell by nearly half. Suddenly, the business plan for all of those families who had borrowed money to buy calves for resale did not make sense. Those who had debt and fattened steers, found themselves with an asset worth the same or less than the value of their original loan. No one wants to sell an asset, pay a debt, and have nothing to show for nearly an entire year's worth of labor. Suddenly, the rural portfolio was at risk. Loans in arrears reached double digits and cash flow ground to a trickle as cattle owners held onto their livestock, hoping that the price per pound of beef would return to its former price. CEPRODEL sprang into action by assuming the role of the Honduran middle-men. They went to clients with outstanding and overdue cattle loans, offering to buy enough animals to pay off their debt, offering a per pound price higher than the market, and assuming the cost of transportation. Then they offered the clients a new loan, which would allow them to buy new calves at the lower market price. So, if the price stayed low, the clients would still get a return based on animal weight gain. And if the price went up, they would have double earnings and recoup their loss. It was a win-win solution, a stroke of nimble genius on the part of CEPRODEL.

As for the environmental impacts of cattle, in Nagarote, we confirmed the incredible impact of encouraging ranchers to set aside a portion of their

land for reforestation and crop diversification. We visited many of the families participating in the Rural Development and Reforestation program, meeting the borrowers and walking through fields of banana, plantain, citrus and native hardwood trees. We saw the wire that separated the cows from the trees, that protected the springs and the streams. We took pictures of the primitive systems of drip irrigation that keep young seedlings alive during times of drought, and we were convinced that more trees, and more diverse cropping will, in the long run, benefit the borrowers as well as mother nature.

Our final field visit of the trip to Nicaragua was with a man who had borrowed money to plant yucca and to increase his production of honey. Just as we were about to sit down for a cool drink and a chat, we heard his son Julio cry: "the woods are on fire. The hives will be lost." He jumped up and ran to find buckets to transport water. Rather than wait for him to return, the entire team of CEPRODEL and SOSTENICA (11 in all) ran with him to see if we could help. Our two vehicles became impromptu fire engines, transporting water back and forth, while we jumped into the blaze, swinging machetes and stomping out brush fires heading for the hives. With everyone working, stomping, swinging and pouring, it took an hour to extinguish the blaze. The fire may have been caused by a local resident hunting for iguanas by setting fire to an underground nest to smoke them out. Whatever the cause, the dry grasses ignited, endangering the woods and the hives. Fortunately, the team efforts of our "fire brigade" saved the day.

Joining the effort to stomp out a brush fire to protect one family's investment reminded me why we do this work. We are all committed to seeing the world become a better, more just place. Sometimes we have to take risks -- be they financial or physical -- and share risks with those least able to survive blows to their economy. It was a privilege to be firefighting, shoulder to shoulder, with our CEPRODEL partners and one client family, knowing that our fortunes are inextricably linked. We have not reached the promised land, but we keep taking steps forward, even when our feet feel like they are on fire.

## Eyes on the Prize!

Nagarote may be the cleanest city in Nicaragua. Forty minutes north of Managua on the way to León, it is also the center of SOSTENICA's sustainable rural development program. The staff of CEPRODEL's Nagarote office work in collaboration with the staff of the Norwalk/Nagarote Sister City Project. They greeted us with handshakes, hugs, and bowls of ripe, exotic, local fruit: anano, nispero, sapote and caimite, as well as pineapple and watermelon.

After sharing the fruit, thirteen of us piled into two 4-wheel drive vehicles and drove along windy, dusty, deeply pockmarked roads over which these farmers miraculously transport their produce to market. We arrived at the farm of the first family on our itinerary. They had set aside several acres to grow the plaintain and fruit trees provided by SOSTENICA and they had submerged a pump in the stream on the border of their land for irrigation. They had ingeniously planted peppers in the gentle shade of the slender new fruit trees, to harvest and sell at market to buy fuel for the pump. Quacking ducks and two little girls greeted us at the next farm, where the family relies on a well for irrigation. The farmer waters the orchard by hand or by hose, using an innovative irrigation method. They strap empty soda bottles to sticks in the ground alongside the narrow trunks of the newly planted trees. Then they slightly loosen the cap of



*Sisters Belkis Novoa (left) and Meylin Novoa are happy with or without their ducks*

the bottle, and water drips down to gently irrigate the trees while conserving this precious resource.

Both farm families make good use of the barbed wire which SOSTENICA provided them. It is necessary to fence in the young trees to prevent the cattle from eating them. The family provides the labor and the posts. We encourage them to plant "living fence posts" alongside the existing new ones, so reforestation can spread throughout the family's land.

During a wonderful lunch of local dishes, our colleagues revealed their vision -- to expand the project to 36 more families to be recommended by current program participants. We welcomed their vision and offered our own -- to plant hardwood trees that will provide financial security for future generations, followed by plantains to provide almost immediate revenue, followed by grafted tropical fruit trees which, within less than a decade, will offer a permanent source of nutrition and income to the family. In cooperation with our colleagues, we will continue to sponsor workshops to explain the environmental impact of the program.

As the sun was getting low in the sky over Nagarote, we arrived at the last farm on our itinerary. The farmer's wife greeted us with pride and joy: "See my front yard -- I have planted it with plantain and fruit trees, and I think it is the finest yard in the neighborhood!" She takes water from the well on her land, and uses the drip method to irrigate her trees. A stream borders her property and she would prefer to pump the water onto her crops, but despite being well shaded with trees on the bank where it runs through her land, the stream is nearly dry. As the sun was setting and we began to leave, this enthusiastic farmer thanked us and informed us that her neighbor was anxious to become a new participant in the expansion of our joint *Project to Protect Sources of Water and Reforest* the farms of clients in Nagarote.

*Jay Pressman*

## CEPRODEL Balance Sheet

Twenty-six months ago (12/31/07), before the global economic downturn, CEPRODEL had 14,594 active Nicaraguan borrowers. The active loan portfolio, more than \$10 million dollars, had a respectable portfolio at risk at less than 6%. That year, total write-offs would be less than 3%, for an annual repayment rate of over 97% (Of course, SOSTENICA still has a 100% on time and in full repayment rate). By the end of February, 2010 the loan portfolio had been reduced by \$1 million. We had 10,673 borrowers -- 3,921 fewer than two years ago -- and the portfolio at risk had reached an all-time high of 20.68%. Despite these distressing results, the SOSTENICA Board of Directors remains optimistic about the future. Why? Numbers without narratives can be deceptive.

More than 66% (2/3rds) of the funds at risk are livestock loans, secured by animals on the hoof. Farmer borrowers still have their cattle, but have been reluctant to sell and repay their loans because of the currently low price of beef. CEPRODEL has agreed to work with those farmers to resolve their arrearages in ways that would not harm the farmers. At the same time, CEPRODEL has instituted stringent credit measures, renewing loans only to "A" borrowers. Also, CEPRODEL has reserved \$1,370,352 (loan loss set aside) to cover any potential losses.

There is no doubt that the Nicaraguan economy, especially the cattle sector, has been affected by the downturn. Nicaraguans with less income buy less meat. The Honduran political crisis has meant little or no beef sales from Nicaragua to that country, further reducing demand and depressing meat prices. CEPRODEL's skillful management of the crisis has demonstrated great flexibility and managerial agility. The crisis is far from over. Beef prices are not likely to go up in the short run, and it will take time to assist farmers in getting out from under these difficult conditions. But we are confident that it can be accomplished in an orderly fashion. Meanwhile, CEPRODEL has learned the danger of over-committing to a single sector, even a profitable one. CEPRODEL's portfolio of the future will be more diverse, including more housing loans for low income families. SOSTENICA's Board is proud to continue to partner with CEPRODEL, making credit available to those in need. We see a bright future on the horizon for Nicaragua and are happy to participate in its dawning. *SOSTENICA Board of Directors*

	12/31/07	12/31/08	12/31/09	02/28/10
<b>Assets</b>				
Cash and Bank Deposits	2,068,900	983,832	1,326,178	1,304,680
Loan Portfolio	10,304,808	11,567,638	9,675,716	9,210,048
Less Loan Loss Reserve	-323,598	-544,133	-1,151,604	-1,370,352
Interest & Commissions Receivable	861,710	971,642	1,183,754	1,176,632
Other Assets	922,017	1,400,679	1,414,334	1,427,980
<b>Total Assets</b>	<b>13,833,837</b>	<b>14,379,658</b>	<b>12,448,378</b>	<b>11,748,989</b>
<b>Liabilities</b>				
Savings Deposits	680,569	479,265	347,832	335,410
Notes Payable	10,078,501	10,953,169	9,781,382	9,489,396
Interest Payable	222,763	213,929	286,023	267,715
Other Liabilities	389,321	392,297	456,292	391,294
<b>Total Liabilities</b>	<b>11,371,154</b>	<b>12,038,660</b>	<b>10,871,529</b>	<b>10,478,815</b>
<b>Net Assets</b>	<b>2,462,683</b>	<b>2,340,998</b>	<b>1,576,850</b>	<b>1,270,174</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>13,833,837</b>	<b>14,379,658</b>	<b>12,448,378</b>	<b>11,748,989</b>
Number of Active Clients	14,594	13,866	10,988	10,673
Portfolio At Risk	5.39%	6.81%	13.36%	20.68%

## Notes from Nicaragua

You don't have to be long in Nicaragua to feel that things are happening here. If you pay close attention, in addition to construction in the cities and sleek new roads in the countryside are the words that surface frequently in conversations: capacitaciones (trainings), desarrollo (development), and infraestructura (infrastructure) to name a few. From the mayor's office to the city bars to the countryside, I hear words that signify change every day. SosteNica plays a leadership role in the exciting changes happening through our partnership with CEPRODEL. For the average Nicaraguan, this is apparent when CEPRODEL appears in headlines in national newspapers for leading the recently passed "Dignified Housing Law;" for taking an active role along with the Nicaraguan Association of Microfinance Institutions (ASOMIF) to create a viable solution to the No Pay Movement; and for being one of the leading national promoters of housing cooperatives. Timed simultaneously with the announcement of the national reforestation campaign, the reforestation project that SosteNica funds in Nagarote has made local press several times, including two appearances on Nicaraguan television. Additionally, SosteNica has supported reforestation by being the only microfinance institution to award rural clients with tree saplings when they pay their credit, and in this way have added over 1,500 additional trees to the reforestation efforts.



*Vernon Berrios and Luis Rivas talking with students about the reforestation project at an Environmental Fair in Nagarote*

These actions affect a broad section of Nicaraguan society. SosteNica's vision of environmental integrity, combined with sustainable economic growth, becomes a reality through CEPRODEL's collaboration with other local institutions. Because of their active policy making role, CEPRODEL reaches out and enhances education, national legislation, market prices, gender equality, and the health of the environment.

CEPRODEL began twenty years ago to offer primarily what they saw as a tool for lasting socio-economic development in the hands of the poorest citizens: microcredit. In the last year, they have been awarded international recognitions for the quality of their work: 5 diamonds for transparency from MixMarket (Microfinance Information Exchange); a Social Performance Reporting Award in the silver category from the CGAP-DELL Foundation and Ford Foundation; and in August 2009 the European Microfinance Platform profiled CEPRODEL in the 2nd European Microfinance Award for Social Responsibility, citing their contribution to "improvements in the quality of life and [the] protection of the environment."

What does this mean for SOSTENICA investors? It means that your investment is a whole lot more than a socially responsible investment with an internationally recognized Nicaraguan Community Development Organization. It means that your investment does more than bring microcredit to thousands of borrowers. It means all of that, plus reforestation and farm diversification with 60 families. By supporting an institution like CEPRODEL that works at both national and very local levels of development, each SOSTENICA investor is supporting a model of development that is more well-rounded and community-based than microcredit alone can offer. And I assure you that the effects of "desarrollo, capacitaciones, e infraestructura" are visible -- and audible -- all across Nicaragua.

Rachel Lindsay

## 2009 Investors & Donors

8 Anonymous	David Goldblum	Charlie Pillsbury
Adorers of the Blood of Christ	Heather Ruth Gosse	Jay Pressman
Adrian Dominican Sisters	Ed Grogan	Elizabeth Rodiger
Shelly. Altman	Peter Guarino	Beth Roth
Brian Anthony	David Gulette	Jon Sabrowski
Denis Asselin	Margaret Gulette	Safe Haven Investment Portfolios, LLC
Judy Nicholson Asselin	Hildegarde Hannum	St. John's Church (NY)
David Bechtel	Elizabeth Hubbard	St. John's Presbyterian Church
Kirstin Bechtel	Barbara Hudgins	Phyllis Schnepf
Chris Bell	Maureen Humpage	Mark Schonbeck
Benedictine Convent of Perpetual Adoration	IMBY Misty Hollow	Matthew Schreiber
Gerard Bernacchia	Cathy Jackson	Rich Schulz
Mary Lenore Blair	Julien Jarreau	Anna Scodel
Cheryle Oshman Blunt	Yvette Jarreau	Ruth Scodel
Lynne Bonnett	Peter Jessop	Seton Enablement Fund
Susan Bramhall	David Jones	Gary Sevitsky
Brien Brennan	Gordon Jones	Robert Silvan
Joan Buccino	Merrily Kaplan	The Sinsinawa Dominicans
Sarah Campbell	Ann Kaseman	Sisters of Charity of New York
Catholic Health Initiatives	David Kaseman	Sisters of Charity of Saint Elizabeth
CCCF Youth Philanthropy Program - Westtown School	Merle Koteen	Sisters of Saint Francis
Churchwomen of St. Stephens	Jennifer Landry	Sisters of the Holy Cross
Larry Comstock	Dorothy LeBar	Sisters of the Humility of Mary HM Alternative Loan Fund
Congregation of Sisters of St. Agnes	George Lindsay	Sisters of the Sorrowful Mother
Kelley Connors	Mary Lindsay	Cyd Sotoroff
Lee Cruz	Rachel Lindsay	SosteNica, Inc.
Lillian Dalke	Adriane Lonzarich	Frank Sprole
Ann DeFeo	Henry Lowendorf	Marcy Stovall
Cheryl Doss	Ivy Main	Talmadge Hill Community Church
Dave Duffner	Sandra Mandel for John Bretlinger	Susan Power Trucksess
Janice Eisenman	Michael McGuire	Drew Tulchin
Amy Eppler-Epstein	Nancy McGuire	Maria Tupper
Jonathan Evans	Barbara Mente	Untours Foundation
Jim Farnam	Nancy Metz	Wachovia Bank
Daniel Federman	Arthur Miller, Jr.	Lacey Watkins
Joe Fitzpatrick	Waldina Molenaar	John Weygandt
Peter Flynn	Lyle Neher	Joan Whitney
Madeline Frankel	Marlene Neher	Alan Wright
Francis & Claire Gace	Norwalk/Nagarote Sister City Project	Dorothy Wright
Nancy Geist	Jonathan Kemper Ogle	Justin Wright
Tish Gibbs	Owen Owens	Murray Wright
Karla Gilmore	Partners for the Common Good	Nora Wright
Kitty Gladstone	Allie Perry	Mich Zeman
	Vicky Peterson	

## Home is Where the Heart Is

Nicaragua, the second poorest nation in the Americas, is in a pickle. Every year, roughly 22,000 families “add their names” to the already long list of people in need of a home. To date, the housing shortfall in Nicaragua exceeds 800,000. Yes, the Nicaraguan private sector builds homes, with price tags ranging between \$30,000 and \$180,000 US dollars. Needless to say, the great majority of people in need of a home in Nicaragua do not earn enough to enter this market.



*Karla Garcia*

Not long ago, in response to lobbying efforts by, among others, SOSTENICA’s partner CEPRODEL, the Nicaraguan National Assembly passed the “Dignified Housing Law”. The new law requires municipal governments to use some of the funds they receive from the federal government to acquire and condition land for low-income housing. The law also intends to lower the cost of housing by making it easier for non-profit organizations to participate in finding solutions for Nicaragua’s poor by lowering the cost of housing. The goal is to build 40,000 new homes per year for each of the next ten years. Annually, the government will build 10,000, leaving 30,000 to come from other sectors.

With recent loans from the government of Holland and from European housing cooperatives, CEPRODEL is making a significant contribution to providing quality homes for Nicaraguans -- organizing, financing, designing and directing the construction of housing cooperatives in both Managua and León. And in December of 2009, SOSTENICA joined the process, sending three of CEPRODEL’s leading professionals to a week-long training on green building techniques in Tlaxcala, Mexico.

During the week, the three studied cob, rammed earth, straw bail, adobe, and pajareque (clay/straw) construction techniques. They returned from the trainings committed to building, on CEPRODEL’s “Siete Sur” complex in Managua, some of the first earth and bamboo structures in the city, to serve as a demonstration and training complex.

CEPRODEL’s long term goal is to organize hundreds of communities of low income families (people who earn between \$350 and \$500 per month), who want to build their own homes costing around \$5,000. The future owners will contribute “sweat equity” and will pay \$60 per month for 10 to 15 years. The minimum home size would be around 600 square feet.

During SOSTENICA’s annual meeting with CEPRODEL, Chris Bell, Jay Pressman and Alan Wright had the opportunity to visit CEPRODEL’s “Hills of Pochocuape Mutual Support Housing Cooperative” on the outskirts of Managua. The newly built coop has thirty homes, one communal building, and 120 members. Two coop members, Karla Garcia (age 25) and Oscar Solorzano (age 29), generously agreed to show us their home, to introduce us to their neighbors, and to speak with us at length about their experience.

The Coop began in 2005, with people gathering to clear the future building site, even before they had secured financing. It took two years just to get their finances in order. Since no one in the Coop earns more than \$400 per month, commercial banks were not interested in lending to them.

(continued on page 8)



*Karla Garcia and Oscar Solorzano*

(Home...continued from page 7)

So CEPRODEL stepped up to create the financing. It costs \$750,000 US to build a 30-home housing cooperative. Coop members pay \$60 per month -- \$57 towards their mortgage, with a \$3 reserve. To rent a comparable home near Managua would cost a family \$200 per month, and they would never have the security of owning their home. In Pochocuape, the coop members will be owners in only 15 years, and after that they pay no rent. Although their home is humble, Karla and Oscar seem to love their coop home as much as they love their neighbors. Walking the streets of the Coop, we felt as if we were meeting a large extended family.

SosteNica: "Do you like living in a housing coop?"

Karla: "It fascinates me to live here! You really know your neighbors. We had to work very closely together to build these thirty homes and the common building. If you have an emergency, you can really count on your neighbors. Oscar had an emergency and everyone helped out."

SOSTENICA: "Are you proud to live in a house that you built with your own hands?"

Karla: "Oh yes! Nobody can believe it -- most of all me! All these houses were built by us, working 40 hours per month for four months -- under the guidance of a skilled master builder. Once they were all built, we drew numbers. The number we drew determined which house we would live in and eventually own."

In the coming months, SOSTENICA intends to increase our involvement with the construction of housing cooperatives. We have pledged to send more of our CEPRODEL colleagues to attend a workshop on appropriate technology. We are also in discussion with other non-profits that have green building experience about how we might bring edible landscaping, green urban design, and a host of alternative technologies to the already proven model of organizing low income housing cooperatives.