La Financiera Nica:

MICRO-FINANCE GROWTH STRATEGY IN RURAL NICARAGUA[1]

MANAGUA, NICARAGUA

Two weeks after arrival in Nicaragua from the U.S., Henry Mas, an American business advisor, received notification from his host company that he was to be sent to a remote region in the north of the country. His mission was to determine whether or not Financiera Nica should open an office in the rural state of Jinotega. Like many small lending institutions, the financiera offered small loans to micro-businesses. A partially washed-out road and noticeable storm damage greeted the members of the market study team. As the hemisphere's second poorest country, Nicaragua struggled to maintain the country's infrastructure in the face of constant tropical storms from May through September. However, the financiera's donated four-wheel drive vehicle negotiated the jungle curves remarkably well.

Company Background

Financiera Nica (Nica) was founded originally as a non-governmental organization (NGO) funded through foreign charity donations. The institution privatized at the end of 1999 with four main objectives:

1. Secure new capital by attracting additional shareholders
2. Lower the cost of capital for portfolio growth by offering savings accounts
3. Attain lending technology from foreign consulting entity
4. Allow original donors to eventually recoup a portion of their original donation

The founding charity funded the institution in 1991 with the goal of reducing unemployment in Nicaragua and retained a controlling stake of about 40% in the new organization. New donor financing was earmarked to cover a portion of office opening and costs associated with initiating and growing a loan portfolio in Jinotega. This secondary donor organization would not seek an eventual equity stake in the financiera. Nica operated twelve branches throughout Nicaragua, concentrated in the country's largest cities. While the population size of Jinotega justified a branch opening, the financiera did not have operations in such a physically remote location.

Nica offered individual loans to three sectors-commerce, service, and production. Loan offerings ranged from $25 to $15,000. While Nica's loan information could accommodate a range of lending methodologies, foreign consultants had convinced Financiera Nica to abandon group lending and housing loans a few months earlier.

The Excursion

Henry's colleague, Jaime Lenin Hernandez Guarro, was leading the excursion. A Nicaraguan native, Jaime was educated in Soviet Russia and ANC-controlled Southern Africa during Apartheid. This coincided with control of Nicaragua by the communist-oriented Sandinista government during the 1980s. Jaime had been the financiera's training manager, but those unprofitable services had been abandoned due to donor self-sustainability pressures. Jaime was grateful to be employed by a stable institution in the post-communist Nicaraguan era. He enjoyed this luxury despite the ideological conflict between his formal socialist education and the nature of his occupation with an institution central to the evolution of capitalism as less than 1/3 of Nicaraguans were economically active at the time (Exhibit 1).

Northern Nicaragua was the site of much of the conflict during the country's civil war in the 1980s between Contra guerillas and the Sandinista government. The Sandinistas came to power during a 1979 communist revolution, overthrowing the multi-generation Somoza dictatorship. U.S. Marines had maintained a presence in Nicaragua since the early 1900s when the two countries squabbled over a possible cross-isthmus canal venture. The project was obviously diverted to Panamá, but U.S. troops and politics continued to intervene in

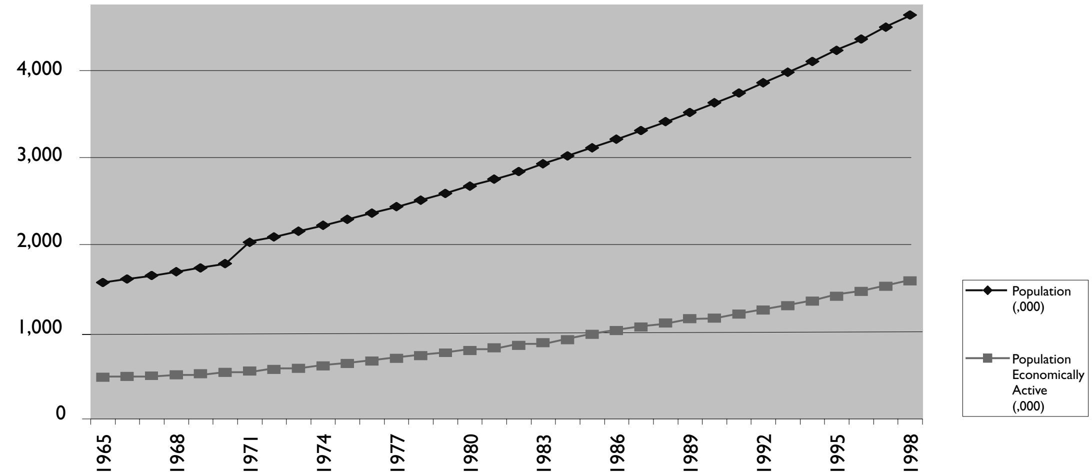

Exhibit 1a. Nicaraguam Indicators – Population

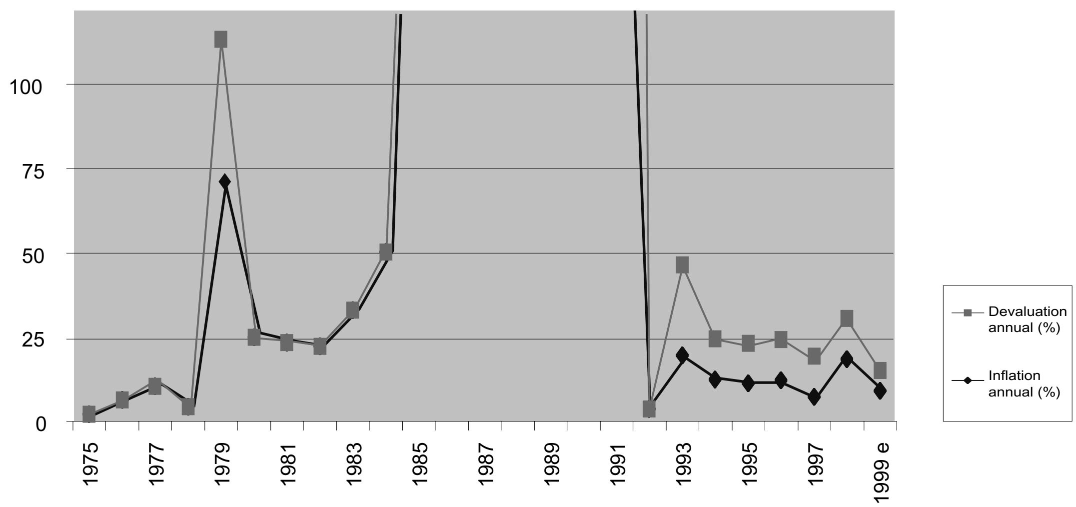

Exhibit 1b. Nicaraguam Indicators – Economy

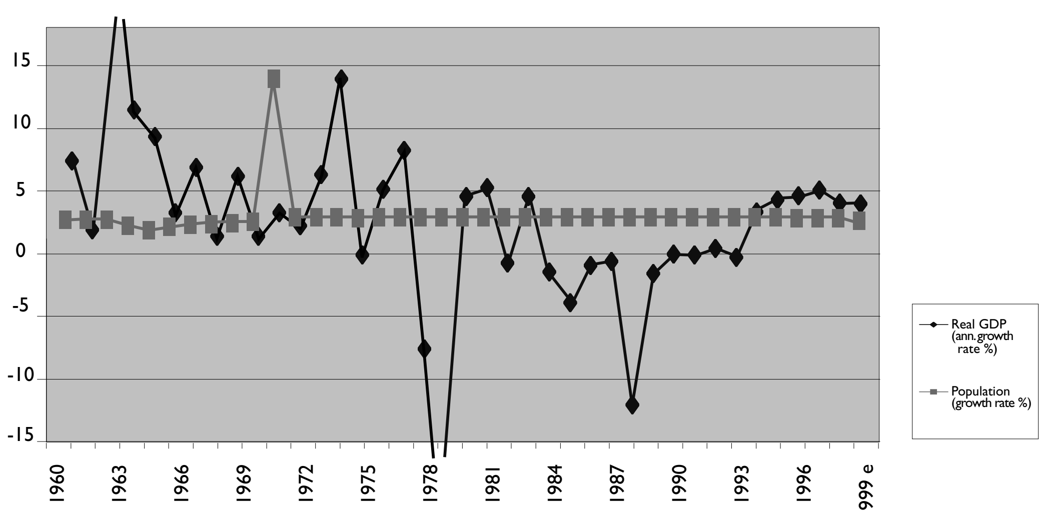

Exhibit 1c. Nicaraguam Indicators – Growth Rates

Nicaragua's affairs. This intervention included support for the Somoza regime.[2] Understandably, Henry felt some apprehension completing a market survey in this area in particular given his country's recent military involvement.

Initially battered by a devastating 1972 earthquake in Managua, Nicaragua's economic and social indicators demonstrated that the 1980s was a difficult time for the country (Exhibit 1). An economic embargo by the U.S., imposed in response to Sandinista government policies, had a particularly harsh effect on the country's economy. The flight of investment capital from private national and international sectors was inevitable due to the government's campaign to nationalize a large portion of the country's assets. The country had undergone significant currency devaluation over the past 20 years as a result of inflationary pressures and a lingering trade deficit. The economy graph in Exhibit 1 depicts the period of hyperinflation between 1984 and 1992. Economic growth rates suffered tremendously in the 80s, while annual population growth rates remained relatively constant at around 3% (Exhibit 1).

Jinotega was the name of both the state and the capital city of this region situated about 164 kilometers north of Managua. The road to Jinotega was in horrible condition and the lingering damage from Hurricane Mitch in 1998 was evident and this damage was amplified by normal seasonal storms. 38 tropical storms were recorded in the area in September 1999 alone. Cars were stuck in roads and ditches. Fortunately Nica had an experienced driver who could successfully navigate the route. He was one of five drivers the financiera maintained to courier documents and chauffeur managers throughout Nicaragua. The drive to Jinotega took about five hours from Nica's Casa Matriz (company headquarters) in Managua.

The analysts spent three days in Jinotega gathering information relative to the opportunity to open a branch to serve the area. On the return trip to Managua, a main bridge had washed out so the group altered their course through the northern jungle, adding three hours to the trip. As night fell, Henry and his colleagues stopped the four-wheel drive vehicle to gaze out at the striking display of stars in the night sky. While contemplating the group's geographical remoteness and the magnitude of the universe under the thick cloud of the Milky Way, Henry realized that their analysis would fundamentally change the way the financiera would grow in the future.

The Analysis

Supply

The supply and demand of credit in Jinotega was analyzed using a variety of methodologies. The most valuable source of information came from the Administración de Renta (tax administration) and the Alcaldia in Jinotega (mayor's office). Specific information regarding the supply of credit, such as market share and loan averages per institution, was estimated using data compiled from interviews with both businesses and credit institutions. Fifty small and micro-businesses in the target market of Nica's typical client base were interviewed with the intent to determine which lending products and services were offered and corresponding utilization rates. Additionally, the analysts approached twelve financial institutions to compile data on portfolio sizes, product offerings, and market position.

The supply of credit in Jinotega was quite competitive. Credit institutions ranged from NGOs servicing micro-businesses, to large commercial banking institutions catering to the local coffee export sector. Forty finance and credit providers were listed as tax paying entities in Jinotega. Data was collected on the sixteen primary banks, NGOs, and cooperatives offering credit via the interviews with small and micro-businesses, and lending institutions. Five of the seven largest commercial banks in Nicaragua measured by the size of their credit portfolios serviced Jinotega via branch offices.[3] One commercial bank noted that five new competitor institutions opened offices in Jinotega within the last year. Further, many businesses utilized distributor terms and government-subsidized programs as credit sources.

Micro-finance institutions generally consider a lender adequately self-sustainable when less than 5% of loans are 30 days past due. This key indicator of loan quality, portfolio at risk (PAR), averaged about 10-12% across all lenders interviewed in Jinotega.

In the NGO sector, FAMA, ACODEP, ServiFinsa, and Atiende controlled the Jinotega market. Cooperatives, government programs, and other NGOs offered a wide range of competing financial services. Commercial banks with the largest presence in this sector were Banco Popular, Banco Mercantil (BAMER), Banco Nicaraguense (BANIC), Banco del Café (BANCAFE), Interbank, Banco Exportación (BANEXPO), and Banco Caley Dagnall. Other government sources provided credit to a small number of businesses and many of the farmers in the region.

Some generalizations taken from interviews are explained in the following notes. An estimated share of the total micro- and small-credit markets, measured by total number of clients, is included in parenthesis.

Henry used annual percentage rate (APR) formulas to calculate comparative interest rates. APR =[interest/month x 12] + [commission/tenure]. A complete analysis of these institutions is included in Exhibits 2-4.

	NGOs
FAMA	(20%) This NGO opened its Jinotega office in 1994. FAMA was estimated to serve more micro- and small-businesses than any other institution in Jinotega. While loan averages were high relative to the NGO sector, loan minimums were among the lowest of any competitor. Many FAMA clients asked for access to checking accounts, while several commented on their appreciation of FAMAs training classes. FAMA clients tended to have comparatively long loan tenure.
ACODEP	(10%) With a presence in Jinotega of three years, ACODEP offered business training courses and both solidarity group and individual loans. Clients were not required to take training classes, but pay a fee of about $5 if they did participate. ACODEP was estimated to be the second largest provider of micro-business loans measured by number of clients. Average loan sizes, about $300, were among the market's lowest.
ServiFinsa	(8%) Operating as Hepsa, the NGO had been active in Jinotega for two years. The NGO reported that portfolio at risk (PAR>30 days) was approximately 27%. Loans were offered to individuals and solidarity groups. Annual interest rates of 56-60% were relatively high.
Atiende	(7%) Atiende's office in Jinotega had been open for five years. During interviews, Atiende mentioned that the credit market in this sector was saturated. The NGO also believed that many clients maintained loans with multiple programs. The NGO claimed to have a portfolio equally divided among solidarity group and individual loan customers. With a maximum of six months, loan tenure was estimated to be the shortest of any institution. Minimum loans of about $125 were lower than any other NGO, however, interest rates were among the highest of all institutions and they did not offer loans to the agricultural sector.
Others	(6%) Cuculmeca and ADEL offered training courses and very limited credit programs directed towards agriculture. MAG-FOR offered a food credit program at low interest rates with the help of local grocers and several commercial banks. Pami, IAMA, and CONAPI had small market shares according to business interviews. FINCA, CRS, WOCCU, and Project Concern also offered services in Jinotega.
	BANKS
Popular	(12%) When measured by number of clients, Popular was estimated to be the market share leader among banks. The bank revealed that PAR exceeded 10%. According to the businesses interviewed, Popular offered lower loan minimums than other commercial banks. Meanwhile, higher interest rates were more typical of NGOs. During interviews, Popular's clients asked for lower interest rates more often than clients of other institutions.
BAMER	(10%) Estimated to have the largest portfolio (in dollar terms) among all credit institutions, the bank is competitive in the micro-business sector, as loan minimums are relatively low. Interviews revealed that BAMER customers paid lower interest rates than market averages and that many of these customers maintain checking accounts. Several clients also requested access to housing loans and insurance products.
BANIC	(6%) The bank had the longest tenure of any commercial bank in Jinotega, some 25 years. The bank had one of the largest portfolios (in dollar terms) in Jinotega. A significant portion of this portfolio was comprised of medium to large companies, as their loan minimum was about U.S.$5,000.
BANCAFE	(5%) BANCAFE clients interviewed had relatively small loans and a high rate of maintaining checking accounts. Clients asked for lower interest rates more often than other bank customers.
Others.	(6%) Interbank claimed to finance as many agricultural clients as they did small commercial businesses with relatively low interest rates. BANEXPO and Caley Dagnall were each estimated to have a small market presence in this sector.
	COOPERATIVES
CACJU	(5%) Offering both credit and savings accounts, CACJU had a relatively small portfolio. Interest rates were competitive but commissions were high given average tenure of less than one year. Training courses were offered. Loan minimums as low as $80 were smaller than any other institution.
Coop Jinotega	(4%) Known as CACPIC, this cooperative had been in operation for thirty-four years. Interest rates were average, but there were no commissions or minimal administrative requirements.

Table 1. Credit Providers in the Jinotega Municipality

	Interest/ Month	Commis- sion %	Term Years	Effective Interest APR
NGOs				
FAMA	4.3%	1.2%	0.6	54%
ACODEP	4.0%	3.0%	0.5	54%
Servifinsa	5.0%		0.4	60%
Atiende	5.0%		0.3	60%
Pamic			0.5	
IAMA	5.0%	1.0%	1.0	61%
Conapi				
BANKS				
Popular	4.3%	2.0%	1.0	54%
BAMER	3.1%	1.0%	1.9	37%
BANIC	2.7%	0.4%	1.5	33%
BANCAFE	3.3%	1.4%	0.9	43%
Interbank				32%
BANEXPO				
Caley Dagnall				
COOPS				
Coop Jinotega	4.0%	0.0%		48%
CACJU	4.0%	7.0%	0.7	58%
Averages				
NGOs	4.7%	1.7%	0.5	58%
BANKS	3.3%	1.2%	1.3	40%
COOPS	4.0%	3.5%	0.7	53%

Exhibit 2a. Interest Rates – Lenders
(Derived from Interviews with Potential Borrowing Clients and Lending Institutions)

	Interest/ Month	Commis- sion %	Term Years	Effective Interest APR
SECTORS				
Small groceries	3.6%	2.8%	0.7	47%
Shoe/ clothing	4.5%	1.5%	0.6	57%
General Retailer	4.1%	1.4%	1.0	51%
Other	3.4%	0.8%	1.6	41%

Exhibit 2b. Interest Rates – Borrowers
(Derived from Interviews with Potential Borrowing Clients and Lending Institutions)

	Asked for service in			Maintain savings	Asked for longer tenure	Asked for lower interest
	savings	mortages	insurance			
NGOs						
FAMA	75%	50%	38%	50%	38%	38%
ACODEP	50%	50%	50%	50%	50%	0%
Servifinsa	0%	100%	50%	50%	100%	100%
Atiende	0%	100%	0%	100%	0%	100%
Pamic	0%	0%	0%	0%	100%	0%
IAMA	0%	100%	0%	0%	100%	0%
Conapi						
BANKS						
Popular	14%	14%	29%	50%	29%	71%
BAMER	0%	60%	60%	75%	0%	20%
BANIC	0%	50%	0%	50%	0%	50%
BANCAFE	0%	100%	50%	100%	50%	100%
Interbank						
BANEXPO	0%	0%	0%	100%	100%	0%
Caley Dagnall	0%	100%	0%	0%	100%	100%
COOPs						
Coop Jinotega						
CACJU	0%	0%	100%	100%	0%	0%
ACCOUNTS PAYABLE	0%	25%	25%	33%	25%	0%

Exhibit 3a. Preferences of Potential Borrowing Clients Interviewed – Client Responses Per Lender

	Asked for service in			Maintain savings	Asked for longer tenure	Asked for lower interest	Currently borrow
	savings	mortages	insurance				
Small groceries	33%	50%	33%	46%	46%	38%	71%
Shoe/ clothing	15%	38%	31%	55%	46%	38%	71%
General Retailer	10%	70%	40%	67%	11%	45%	83%
Other	10%	50%	20%	40%	40%	30%	50%
Total/ Average	18%	52%	32%	51%	38%	38%	70%

Exhibit 3b. Preferences of Potential Borrowing Clients Interviewed – Client Responses Per Sector of Borrower

	Average Loan C$	Average Loan US$	Min Loan US$	Total Portfolio C$	Total Clients	Market Share
NGOs						
Fama	7,167	590	165	3,921,476	547	20%
Acodep	3,518	290	206	967,411	275	10%
ServiFinsa	7,000	576	329	1,626,571	204	8%
Atiende	4,146	341		765,000	185	7%
Pamic				273,375	50	2%
IAMA				273,375	50	2%
Conapi				273,375	50	2%
BANKS						
Popular	11,560	951	165	4,471,000	337	12%
BAMER	57,000	4,691	706	17,131,429	308	11%
BANIC	78,750	6,481	5,000	12,454,286	159	6%
Café				6,706,800	138	5%
Interbank				2,430,000	50	2%
BANEXPO				2,430,000	50	2%
Caley Dagnall				2,430,000	50	2%
COOPs						
Coop Jinotega	4,667	384		630,000	135	5%
CACJU	6,949	572		738,000	106	4%
Total/ Average	21,361	1,758		57,522,098	2,693	100%
NGOs	5,458	449	233	8,100,583	1,360	51%
BANKS	49,103	4,041	1,957	48,053,514	1,092	41%
COOPS	5,808	478		1,368,000	241	9%
Total/ Average	40,000	3,292		12,100,000	303	

Exhibit 4a. Market Share, Supply of Credit – Lenders *(Derived from Interviews with Potential Borrowing Clients and Lending Institutions) – US Dollars (US$) and Nicaraguan Cordobas (C$)*

	Average Loan C$	Average Loan US$	Min Loan US$	Total Portfolio C$	Total Clients	Market Share
Sector						
Small groceries	10,167	837				31%
Shoe/ clothing	15,800	1,300				8%
General Retailer	13,900	1,144				20%
Other						41%

Exhibit 4b. Market Share, Supply of Credit – Borrowers *(Derived from Interviews with Potential Borrowing Clients and Lending Institutions) – US Dollars (US$) and Nicaraguan Cordobas (C$)*

I. Administracion de Renta, October 1999	
Commerce	2,273
Agriservice	396
Service	267
Transport	73
Manufacturing	46
Finance	40
Other	13
Total Businesses	**3,108**

II. Consultants Method	
Population Municipal 1995, National Census	73,973
Population Municipal, October 1999 (3% growth)	82,644
Urban Sector	55%
Urban Population	45,454
# of Families, 5 People Ave (est)	9,091
1/3 of Families Have Businesses (est)	33%
Total Businesses	**3,030**

III. Municipio de Jinotega	
Economically Active 1995	24,687
Economically Active October 1999	27,581
(3% growth)	
% Work in Selling, Services	25%
Employees of Businesses	6,895
Number of Employees per Business (est)	2
Total Businesses	3,448

IV. Alcaldia, October 1999	
Tax Payers Market	362
Tax Payers Municipality	875
Mobile Vendors	280
Other Informal (est)	1,500
Total Businesses	**3,017**

Average of Estimates	
I. Administracion de Renta, October 1999	3,108
II. Consultants Method	3,030
III. Municipio de Jinotega	3,448
IV. Alcaldia, October 1999	3,017
Average	**3,151**

% Micro-Small Businesses (MEDE/GTZ)	96%
Micro-Small Businesses in Jinotega	3,025

Exhibit 5. Number of Businesses – City of Jinotega

Demand

Data from several sources was available to calculate aggregate demand, including information from the Administration de Renta, the Alcaldia de Jinotega, and a method of a consulting firm (Exhibit 5).

Henry combined these various methods to estimate that there were 3,151 businesses in Jinotega. MEDE/GTZ estimated that 96% of all businesses were in the small- and micro-category in Nicaragua. Therefore, 3,025 small- and micro-enterprises businesses existed in Jinotega.

Many clients often borrowed from multiple institutions, so Henry assumed that 10% of total businesses in this sector borrowed from more than one institution at any given time. Two additional factors had to be considered in estimating total demand: 1) Several businesses utilized distributor credit. 2) A small percentage of businesses accessed credit via government programs. The total of these credit clients was assumed to be 15% of the current number of small- and micro-businesses.

Credit Client Preferences

Business interviews showed that a range of preferences existed in the marketplace. Business owners were asked which types of financial services were desired from a financial institution and what terms they preferred in credit products.

Businesses responded with several comments that were important to understand this market. Generally, small- and micro-businesses preferred access to business training classes, flexibility with past due amounts, monthly payment schedules, loan tenure ranging from nine months to one year, and interest rates lower than 50% annually (Exhibit 3). Surveys also revealed various qualitative preferences. Clients preferred institutions with fewer administrative and documentation requirements that were closer to their businesses. Businesses also demanded rapid, efficient, and personal service from credit institutions. Respondents also noted that they preferred a credit provider that understood their particular business sector.

Businesses commented about the problems they faced doing business in Jinotega. Some of the most frequent responses were: lack of paved roads, stagnant sales, inconsistent power supply, dependence on the production and price of coffee, effects of hurricanes, distance to major markets in Managua, limited economy, department taxes, increasing competition, and lack of credit offerings to their client base composed primarily of area farmers.

Competitive Analysis

Henry assigned a subjective rating to each sector and to leading institutions in order to compare performance relative to these characteristics. Five factor preferences were weighted in analyzing the competitive position of institutions in Jinotega. Interest rates, loan tenure, amount lent, services offered, administrative requirements, and training programs were the issues most important to credit clients in Jinotega based on client and institution interview responses. The scale was based on a range of 1 to 5, 5 demonstrating strong competitive position.

Each characteristic required the following performance to earn a "5" competitive position rating:

1. Interest rates 30-40% annually
2. Loan tenure greater than one year
3. Amount lent a range of offerings from less than $150 to more than $5,000
4. Services offered demand and access to savings, housing loans, and insurance
5. Administrative requirements consistent positive client responses
6. Training programs consistent positive client responses

	I. Sectors			II. NGO leaders		III. Bank Leaders		
	Raya	NGOs	Banks	Coops	FAMA	ACOPED	POPULAR	BAMER
(1) Interest	1	2	4	3	2	2	1	5
(2) Tenure	4	2	5	3	3	1	4	5
(3) Amount Lent	5	4	2	4	4	3	4	2
(4) Services	2	2	4	2	3	2	3	4
(5) Requirements	1	2	1	4	2	2	1	1
(6) Training	2	3	2	3	5	3	3	1

Table 2. Competitive Indicators

		Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6
Months in Period		4	12	12	12	12	12
Period Ending		May 00	May 01	May 02	May 03	May 04	May 05
	Number of New Loans	88	311	173	86	88	91
	Number of Renewals		162	400	503	518	533
	Total Number Loans End of Period	**88**	**473**	**573**	**589**	**606**	**624**

Table 3. Loan Disbursement Estimates

Break Even/Projection Analysis

Henry sat down with Jaime to calculate a break-even projection for the opening of the branch. Break even was known as "kritichescaia tochka" in Russian, as Jaime explained. This roughly translated in Spanish to "punto critico" or "critical point." Henry appreciated the irony of the phrase. He thought that the equilibrium point, and the treatment of profits thereafter, really was the "critical point" depending on one's sociopolitical ideology. Nicaragua switched ideology 180 degrees with the 1979 revolution that nationalized many of the country's assets and ended years of Somoza cronyism. The 1990 elections put Violeta Chamorro into power and returned democracy, freedom of the press, and capitalism to Nicaragua.

Initial projections for entering the market were optimistic in attaining more than 20% share of the combined NGO, bank, and cooperative credit market of micro- and small-businesses in Jinotega after the second full year of operation, as shown in the pro forma statements below.

Assumptions

- The exchange rate was 12.15 córdobas / U.S.$1
- Raya's fiscal year end was May 31.
- Scheduled opening of the new office was to be February 2000.
- Interest rates for Nica's loans were 5% a month, customers were charged a 4% commission; Average loan tenure was nine months.
- Portfolio at risk for the entire Financiera was about 5%. Revenue from interest was then reduced by this factor.
- To calculate loan repayment, Henry assumed that the entire portfolio from the previous years was repaid and about 50% of the disbursements for any current year remained outstanding at the end of the year.
- $16,854 in grant money was available from donors to be used for branch opening costs. Total branch opening costs were assumed to be $45,000 in the first year and $25,000 in the second year. Donors also committed to provide $225,000 of initial portfolio financing. Neither of these donations were required to be repaid.
- Branch operating costs were estimated to be $30,000 in the first four months and $55,000 per year thereafter.
- Salaries were the largest branch expense. Average salaries were about $500 per month, ranging from $80 per month for chauffeurs and maids to $1,500 for branch managers.

Henry estimated that loan disbursements would be made over the next six years in Jinotega according to the table 3.

Henry then set up an initial income statement, breakeven calculation, and cash flow projection outlined in Table 4.

Market Characteristics

Seasonality

Interviews provided a range of opinions as to the seasonality of businesses in Jinotega. Most agreed that the coffee harvest (Cosecha de Café) from October to February was the time of year with the greatest business activity. April and May also brought business activity above normal levels due to Easter Week and the bean harvest. March, June, July, August and September were months with less economic activity aside from a few counter-cyclical businesses such as agropecuerias (seed, fertilizer, and animal feed stores).

Infrastructure

Jinotega was the capital city and transportation hub of the department (state or province). The predominant form of transportation was automobile or bus but horses constituted about 10% of traffic. Transportation was highly dependent on gasoline deliveries from Matagalpa making daily bus service operate to Matagalpa, Esteli, Managua and surrounding communities.

Electricity was generated from nearby hydroelectric plants, and 39% of the houses in Jinotega had electricity connections.

However, several sources of energy were often used. For example, many businesses operated partially on natural gas in order to mitigate the possibility of periodic power failures. Bakery workers at one interview site worked in natural light during the day while the oven was powered by diesel fuel.

5% of households had telephone connections via ENITEL.[4]

No airport or railroad serviced Jinotega. Twice this decade the main road between Jinotega and Matagalpa was impassable. Hurricanes Juana in 1992 and Mitch in 1998 were each responsible for effectively cutting the city off for about three weeks. The principal road, a 30km stretch connecting Jinotega and Matagalpa, was cut off periodically each year during the rainy season from September to November.

Jinotega was highly dependent on its coffee export which was shipped by truck from area farms to Jinotega then to Matagalpa, Chinandega, and eventually the Pacific port at Corinto. Infrastructure delays had tremendous effects on the prosperity of the entire department.

Sector Concentrations

Data on the tax paying entities in Jinotega showed that businesses were concentrated in the following sectors:

31%	Small Groceries
20%	Retail Miscellaneous
8%	Retail Clothing and Shoes
41%	Other, Including Pharmacies, Restaurants, Bakeries, Agricultural Supply, Etc.

Agriculture

The regional economy was led by the volatile coffee industry. This market was volatile due to weather and the cyclical Chicago Board of Trade speculation. Beans, vegetables, and corn made up about 1/3 of agricultural production. The agricultural sector was characterized by a large number of small producers.

The municipality of Jinotega produced several crops within 16,264 manzanas (about 1.727 acres) of productive land. The cattle population within the municipality was estimated 10,000 head. 12,000 individual producers held title to land legally. Products and the percentage of manzanas dedicated to production were as follows:[5]

Coffee	Corn	Various Vegetables	Beans
68%	15%	9%	8%

Coffee

A 1999 study showed that 97% of all farms in the department of Jinotega were 10 manzanas or fewer in size. The same study revealed that organic coffee demanded three times the market price. This product was technically superior, clean, and ready for export. As of August 1999, organic coffee sold for $105/quintal vs. $33/quintal for "raw" coffee. One quintal

Interest Revenue, Excluding % At Risk (Average Active x 95% x 5% x # months)	
Commission Revenue, 4%	
Operating Costs	
Fixed Costs to Open an Office	
Donor Fixed Cost Contribution	
Gain/Loss	
Total Disbursements, End of Period	
Repayments	
Active Portfolio, End of Period (Year End Portfolio + Disbursements- Repayment)	
Average Active Portfolio (Beginning Portfolio + Ending Portfolio) / 2	
Break Even Portfolio Size (Average Active Portfolio / .65)*	
Number of Loans (Active Portfolio / Average Loan Size)	
Raya Market Share	
Cash Flow	
Gain/Loss	
Loan Disbursements	
Donor Disbursements (Up to $225,000 Total)	
Loan Repayment	
Net Cash Flow	
Cash Balance	
NPV Cash Flow, r=15%, g=3%	
NPV total	
Portfolio Growth Rate	
Autosustainability**	

**Henry used a breakeven calculation as follows =12 months x [interest rate + (Commission / Tenure)]*

***Autosustainability was calculated as follows = (Revenue / Total Expenses)*

Table 4. Income Statement, Break Even Calculation, and Cash Flow Projection, US$

Chart 1. Coffee Futures CBOT

equals about 101 pounds. The farmers in the department of Jinotega produced 305,500 quintals of coffee per year, with about 59% of the production located near the capital. Each manzana in the department produced about 10 quintals a year but the yield fluctuated 20-30% each year.[6]

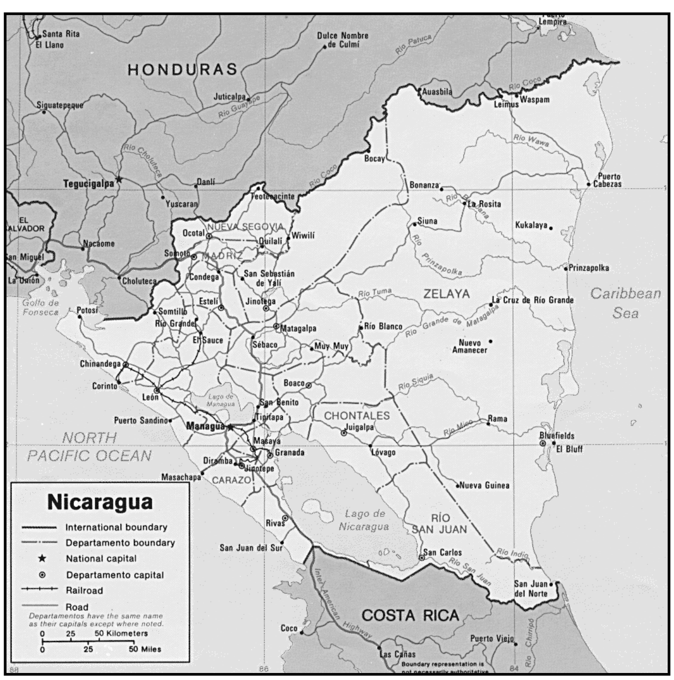

Exhibit 6. Map of Nicaragua

The global commodity price of coffee had seen two particularly volatile periods over the past decade. In 1994 and again in 1997, forward contract prices increased more than 300%. The price appeared to demonstrate two-year seasonality and trend upward. During October 1999 the price fluctuated 50%. Current futures contract prices were about $1,200 per ton. The current price was about average compared to prices over the past nine years as evidenced by the following coffee futures graph from the CBOT (Chicago Board of Trade).

Country Background

Nicaragua is the largest country in Central America with significant natural resources, a cheap labor force, and laws promoting investment. It occupies an area of 130,688 square kilometers (49,759 squares miles). Its natural boundaries are Honduras to the north, the Caribbean Sea to the east, the Pacific Ocean to the west, and Costa Rica to the south.

The population of Nicaragua is 4.77 million people with an annual increase of 3.1% and approximately half of the population is under the age of fifteen. Most people live in the Pacific southwest and have a Hispanic-European and Native Indian heritage. The Atlantic Coast is predominantly Black in population. Spanish is the official language, although English is spoken in the Caribbean region as well as in the business community

Type of Business	Have Loans	Bank/ NGO/ Coop	Age	Loan Amt C$	Int month	Comm-ission C$	Comm-ission %	Term Yrs	~ APR	Asked for Service			Have savings	Asked for longer terms	Asked for lower interest
										sav	mort	ns			
1 Grocer	1	Café	11.0	2,000	2.0%	150	7.5%	1.0	32%	0	1	1	1	0	1
2 Grocer	1	Fama	40.0	10,000	3.0%	500	5.0%	0.8	43%	1	0	0	1	1	0
3 Grocer	0		0.1										0	0	1
4 Grocer	1	Fama	7.0					0.5		1	1	0	0	0	1
5 Grocer	0									0	1	0	0	0	0
6 Grocer	0		10.0							0	0	1	0	1	0
7 Grocer	1	Popular	25.0	2,000						0	0	1		1	0
8 Grocer	0												1		
9 Grocer	1	Popular	20.0	35,000	5.0%	150	0.4%	1.0	60%	0	1	0	1	0	1
10 Grocer	1	Fama	6.0	10,000	3.0%	500	5.0%	0.5	46%	1	0	0	1	0	0
11 Grocer	1	Acodep	0.5	2,500	3.0%	125	5.0%	0.5	46%	0	1	0	0	1	0
12 Grocer	1	Fama	5.0	2,000	5.3%			0.3	64%	1	1	1	0	1	0
13 Grocer	1	Popular	0.5	8,000				1.0		0	0	0	1	0	1
14 Grocer	1	Popular	2.0	20,000				1.0		0	0	0	0	1	0
15 Clothes/Shoes	1	Popular	20.0							1	0	0	0	0	1
16 Clothes/Shoes	1	Pamic	9.0	10,000				0.5		0	0	0	0	1	0
17 Clothes/Shoes	1	Fama	3.0	6,000	5.0%			0.5	60%	1	1	0	1	1	1
18 Clothes/Shoes	1		4.0	10,000						0	1	0		1	0
19 Clothes/Shoes	0	Proveedor	20.0							0	0	0		0	0
20 Clothes/Shoes	1	BANEXPO	5.0	30,000				0.2		0	0	0	1	1	0
21 Clothes/Shoes	0	Proveedor	4.0												
22 Clothes/Shoes	1	Servifin	20.0	4,000	5.0%			0.5	60%	0	1	1	1	1	1
23 Clothes/Shoes	1	Popular	5.0	7,000						0	0	0	0	0	1
24 Clothes/Shoes	1	IAMA	15.0	5,000	5.0%	50	1.0%	1.0	61%	0	1	0	0	1	0
25 Clothes/Shoes	0	Proveedor	5.0	50,000						0	1	0	1	0	0
26 Clothes/Shoes	1	CACJU	12.0	15,000	4.0%			0.7	48%	0	0	1	1	0	0
27 Clothes/Shoes	1	Popular	25.0	21,000	3.5%	420	2.0%	1.0	44%	0	0	1	1	0	1
28 Clothes/Shoes	0	Proveedor								0	0	1	0	0	0
29 Misc Retail	1	Fama	1.0	10,000	5.0%			1.0	60%	1	0	1	0	0	1
30 Clothes/Shoes	0														
31 Misc Retail	1	Atiende	8.0	6,000	5.0%			0.3	60%	0	1	0	1	0	1
32 Misc Retail	1	Fama	15.0	17,000	4.0%			0.8	48%	0	0	1	0	0	0
33 Misc Retail	1	BAMER	40.0	20,000	4.0%			1.0	48%	0	0	0	1	0	0
34 Misc Retail	1	Fama	7.0	2,000	5.0%			0.6	60%	0	1	0	1	0	0
35 Misc Retail	0														1
36 Misc Retail	1	BAMER	3.0	45,000	3.0%	450	1.0%	2.5	36%	0	1	1	1	0	0
37 Misc Retail	1	BAMER	2.5	10,000	2.5%	100	1.0%	2.0	31%	0	1	0	1	0	0
38 Misc Retail	1	BAMER	12.0	5,000	2.5%	50	1.0%	1.0	31%	0	1	1		0	0
39 Misc Retail	1	Servifin	3.0	4,000	5.0%			0.3	60%	0	1	0	0		1
40 Misc Retail	1	Café	3.0	20,000	4.5%			0.8	54%	0	1	0	1	1	1
41 Bakery	1	Acodep	20.0	3,000	5.0%	40	1.3%	0.5	63%	1	0	1	1	0	0
42 Bakery	0		40.0							0	1	0	0	0	0
43 Pharmacy	1	CaleyDag	3.0							0	1	0	0	1	1
44 Pharmacy	0		5.0							0	1	0	1	1	0
45 Ag Retail	0	Proveedor	7.0	30,000						0	0	0	0	1	0
46 Ag Retail	1	BAMER	2.5	150,000	3.3%			3.0	40%	0	0	1	0	0	1
47 Hardware	1	BANIC	23.0	100,000	2.7%	350	0.4%	1.5	33%	0	1	0	1	0	0
48 Paint store	0	Conapi								0	0	0	0	0	0
49 Hotel	0		8.0							0	1	0	1	1	0
50 Leather store	1	BANIC	6.0	65,000	2.7%			1.5	32%	0	0	0	0	0	1
Total/Promed		**70%**	**11.0**	**21,360**	**3.9%**	**240**	**1.1%**	**0.9**	**49%**	**18%**	**51%**	**31%**	**51%**	**38%**	**38%**

yes=1 no=0

Exhibit 7. Interviews with Potential Borrowing Clients

of the capital city. The illiteracy rate is 25%, the mortality rate 5.7 per 1,000 inhabitants, and life expectancy is 68.4 years for women and 63.4 for men.

Historical Background

Nicaragua underwent many changes during the previous decade. Nicaragua spent the 1990s trying to reestablish itself as a nation after forty years of dictatorship, several assassinations, a revolution, a socialist government, and ten years of civil war.

During the 1980s a new socialist government ran the country, following the overthrow of a dictator,. Although inflation and poverty rose and corruption remained rampant, the socialists dramatically improved the literacy rate and established equal rights for women. Nevertheless, many families who lost their homes and livelihood during the revolution resented the socialist regime. Nicaragua was at war during most of this time. The war had taken its toll and public support for the socialists was waning. Citizens were willing to accept any compromise for an end to the unrest.

In 1990, a new conservative government was elected that promised to end the war and renew economic development. Multi-national organizations, such as the World Bank and the International Monetary Fund, were working to relieve the Nicaraguan national debt and implement programs of economic restructuring. In a seemingly rapid turnaround, the Nicaraguan economy swung to a promising center for international capital investment from widespread sources.

The Economy

The economy of Nicaragua is essentially agricultural with a small industrial base. The country's principal exports are coffee, sugar cane, sesame seed, meat, shellfish and bananas. The trade balance is negative and financed from capital inflows and remittances from abroad. Grains, corn, rice, beans, and tropical fruits are grown for domestic consumption. There is an abundance of land and minerals yet to be explored. Nicaragua is entirely dependent upon imports for most manufactured items.

1. This case was written by Eric Moore of Notre Dame University under the supervision of Professor Richard Linowes of the Kogod School of Business at American University in Washington, D.C. It is intended as the basis of class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.
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QUESTIONS TO CONSIDER

1. Analyze supply and demand characteristics for this market.
2. Analyze competition, including a competitive mapping comparison graphing the indicators in table 2.
3. Analyze client preferences
4. What opportunities exist for Nica to offer other products or services?
5. Construct a breakeven analysis using the facts from this case.
6. Should Nica enter Jinotega? Who would suffer market share? What might be some competitive reactions?