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Origins and impact of the No Pago movement in northwest Nicaragua

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This note is based on field work carried out in June and July 2012. The aim of this research was to understand why microfinance sector in Nicaragua was so deeply affected by the willful default crisis of 2008, and why it spread so quickly.

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We conducted in-depth interviews with 15 microfinance sector experts, 10 MFI managers, 15 field staff (loan officers, promoters, recovery staff), and nearly 50 borrowers. The borrowers were categorized by their MFIs as excellent, good, bad or very bad clients and included defaulters, some who were leaders of the *Movimiento de Productores, Comerciantes, Microempresarios y Asalariados del Norte* (MPCMAN), often referred to as the *No Pago* movement (hereafter referred to as the *Movimiento*).

Field research was carried out in June and July 2012; two and a half weeks were spent in the epicenters of the crisis zone in the departments of Nueva Segovia, Jinotega and Matagalpa.

Our goal was to constitute a history of the default crisis in northwestern regions of Nicaragua, based on personal memories of each of the concerned parties: their version of what led up to the crisis, explanations for how the crisis developed, and their opinion about the current financial situation. We also gathered data on microfinance institutions and on the local economy (production levels from different sectors and household incomes). In each client interview, interviewees were asked to detail their income generating activities, expenses, personal financial situation, and how this has evolved over time. This brief on-site survey revealed the extent to which the finger-pointing of political leaders as the cause of the crisis in fact masked other responsible parties and, more generally, systemic dysfunction at the sector level.

The *No Pago* movement initially emerged to defend imprisoned debtors and ownership rights, before becoming a movement for renegotiating loans under conditions that were extremely unfavorable for MFIs and extremely favorable for the indebted.

The strong growth of the Nicaraguan microfinance sector from the 1990s until the 2008 crisis was, in a sense, unhealthy in that it gave rise to some unavoidable problems. The following causes have been identified as reasons for rising delinquency:

- Lack of concern regarding over exposure to large livestock farmers (with large loans bringing down the cost of making loans in the short run);

. Institutional negligence regarding adequate analysis of clients, their debt capacity, their repayment capacity and loan utilization (for example, using a loan to buy land instead of cattle, as per the loan application);

. Weak regulation and insufficient supervision (no effective use of the credit bureau, no financial education of borrowers, insufficient controls of institutions at both head office and branch levels, extremely insufficient cooperation between MFIs in spite of the efforts of ASOMIF to coordinate the main MFIs and dialogue with public authorities);

. Opportunism of numerous national and international actors resulting in fierce competition to grant so-called "micro credit" (in every branch studied, the research time identifed loans of up to US$ 50,000).

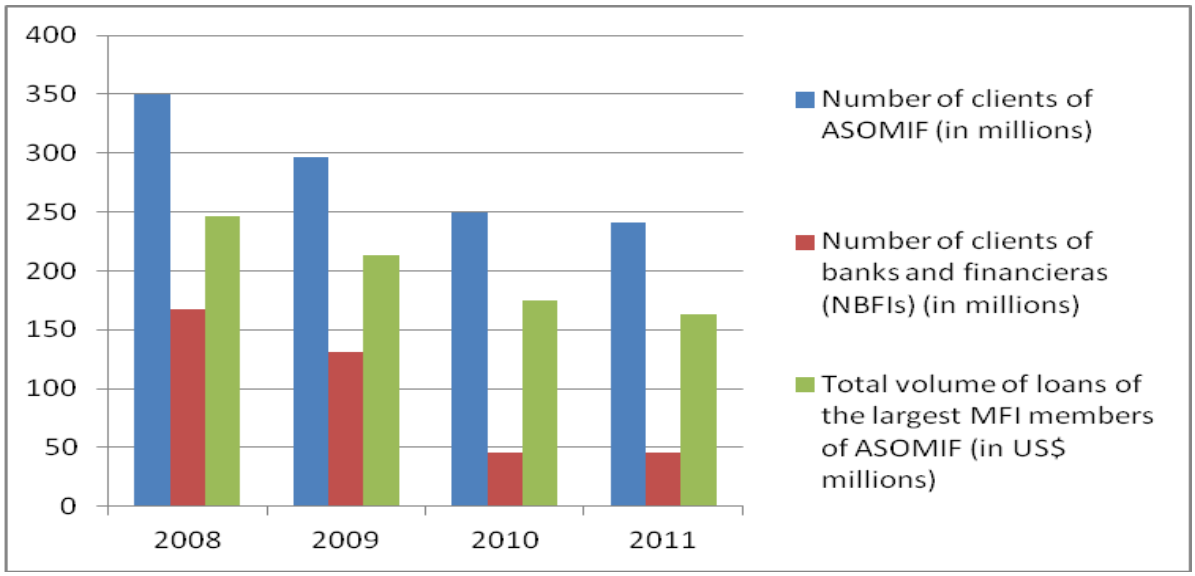
The absence of proximity to clients played a key role in the ignorance of rising risk factors. In some cases, these factors were well-known, but masked from foreign investors who, misled by growth rates and immediate returns on investment, did not monitor closely enough institutions' operations or the country's situation. The first surge of debtors in the North was quickly followed by the withdrawal of the main foreign investors; bankruptcy of Banex, one of the most well-known MFIs in the world; and a considerable slow down in terms of number of borrowers and loan volumes, albeit with significant differences among regions and institutions.

A large-scale disaster

Since the start of the crisis in 2008, the Nicaragua microfinance sector has experienced one of the most severe and spectacular declines ever. Among ASOMIF's principle members, the number of clients fell from 350,000 clients in 2008 to 241,000 in 2011. The loan portfolio dropped from US$ 246 million to US$ 163 million in 2011. Simultaneously, the

number of bank and *financieras* (non-bank financial institutions that offer microcredit) clients fell even more dramatically: from roughly 167,000 in 2008 to around 46,000 in 2011. The total portfolio of the MFIs, banks and *financieras* fell from US$ 563 million to US$ 266 million during the same period.

The high loan repayment rate, a practically unquestionable virtue of microcredit, plummeted in just a few months. Between December 2007 and December 2010, the percentage of loans with over thirty or more days outstanding in their repayments rose from 3.6% to 14.2%. When we disaggregate data by region, institution and branches, it becomes apparent that these averages merge considerable disparities, with some branches having PAR30 as high as 40%.



Catalysts of the 2008 crisis

The biggest error of lending institutions was to have massively invested in livestock farming, a sector which they knew little about. Without any contextual analysis or market knowledge, they were unable to foresee its probable outlook and real opportunities. The error of international investors was to have massively supported this choice through their financial support to these credit providers. Typical microcredit involves the distribution of loans for highly informal urban activities such as small trade or crafts. The new sectors targeted were seasonal rural activities, with significantly higher loan amounts and longer production cycles. Local microcredit providers believed they could adapt by recruiting agricultural engineers as loan officers. However, these new recruits lacked formal financial analysis skills. This was a major contributing factor to the crisis, which was

induced by a drop in incomes of cattle producers in the north of the country.

When defaults suddenly increased, MFIs realized that the strong financial performances that had attracted foreign investors were going to brutally drop and endanger their survival. To maintain their competitiveness, some institutions and independently, some loan officers, used extremely violent collection practices, including psychological ones, to pressure defaulters. Some institutions tried to expulse distressed debtors from their land. This was, in particular, the case of Banex (ex FINDESA) and Procredit. Stores of accumulated goods could be found in MFI branches: goods that had been seized but could not be auctioned off since MFIs were no longer legally entitled to do so after a change in legislation. Institutions were particularly harsh with some defaulters, in effort to make an example of them to all their failing clients, most of whom they felt were able to repay, even if they became temporarily poorer by selling land or cattle at a loss. On top of this, there were charges of forced removal of clients from their lands and farms, strong-armed by people close to the MFIs and corrupt judges. Some institutions had added clauses to their contracts in which the borrowers agreed to hand over their residence to the judge and accept the MFI's head office or otherwise suitable place nominated by the MFI, to settle any unpaid dues. Hence the difficulties of debtors to assert their rights with the help of a lawyer in a municipality far away from their place of residence; hence also the reason why *Movimiento* members got involved in defending those likely to be expelled. The distance could have been a disadvantage to the indebted. Instead, it encouraged the movement, by creating interregional solidarity and giving it a national dimension. The first protests against MFIs began when the latter started to seize real estate and goods from defaulters and their guarantors, and it began clear that there would be no general moratorium on debt, as in the past. They started in the departments of Madriz and in Nueva Segovia from March 2008 onwards, four months before the speech of President Ortega, often cited as the trigger of the movement. The first demonstrations in front of the banks and MFIs took place on May 12, 2008 in San Juan del Rio Coco, Ocotal, Murra, Quilali and Jalapa, bringing together a total of approximately a thousand people. By the end of June 2008, the movement had extended to other departments in the north: Jinotega, Matagalpa and Estelli. Demonstrations in front of the branches and MFI head offices brought together several hundreds in

certain localities, then several thousands in Managua, the capital. Various testimonies suggest that the movement united some 15,000 people.

Like other demonstrations in the country, the movement resulted in road blockages. One of the first *plantóns* blocked the Pan-American highway in the direction of Honduras and brought together 400 people. It had been announced on April 21, 2008 on the outskirts of the town of Ocotal on the Rio Coco Bridge. Its goal was to obtain government response to the request for help against the MFIs and banks. Two days later, while the blockade continued, negotiations between the *Movimiento* and the government broke off. The *plantón* was lifted when a government representative promised that no one would be imprisoned for defaulting to a MFI, and that negotiations would be held so as to defer repayments and decrease interest rates.

A large number of sector observers blame President Daniel Ortega's intervention, quoting an extract of his speech at Jalapa (Nueva Segovia) on July 12, 2008 calling to those in debt:

"to protest in front of the offices of the usurers. […] they were right to protest against the usurers, but instead of being on the roads, they should protest and put themselves in front of the offices. We will support them."

Six months later, on February 26, 2009, this fervent government support, which succeeded in reducing road blockades, had tempered. At the signature of an agreement designed to settle the conflict between the Government, ASOMIF, Fama Bank and the co-operative Caruna (Caja Rural Nacional), the president affirmed that "*the no payment culture had been buried"* in Nicaragua.

The assertion of collusion between the *Movimiento* and the presidency of the Republic—that the crisis had political origins—appears erroneous. Interviews with *Movimiento* members revealed former supporters of the extreme right anti-Sandinista Contras along with partisans of right or center parties. The government-*Moviemento* relationship cannot be characterized by the former's influence over the latter, in order to oppose MFIs. Rather, it is appears to be the opposite: *Movimento* leaders strongly encouraged demonstrators to publicly support President Ortega in hopes that the latter would cancel their debts, or at the very least restructure them over several years in order to protect their assets. Similarly, and conversely, MFIs were accustomed to

"working" certain elected officials so that they would pass amendments in their favor.

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