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Crisis in Nicaraguan Microfinance: Between the Scylla of Business for Profit and the Charybdis of Clientelism

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ABSTRACT

From being a poster child of microfinance development, Nicaragua became one of the nightmares for the industry. The negative influence on the countries' repayment culture of the Non-Payment Movement, ambiguously related to the new Sandinista government, is typically blamed for the crisis. A closer analysis, however, reveals that features of the mainstream microfinance policies in Nicaragua are possibly more to blame for the crisis than the political turmoil, which opportunistically seems to have taken advantage of the underlying problems. Overfunding of regulated MFI-banks and promotion of excessive competition, in particular of these banks with the non-regulated MFIs, led to reckless lending and created over-indebtedness. Gradual professionalization and conventionalization also led to the erosion of social embeddedness –once at the core of the Microfinance revolution- and left MFI weak in the face of political challenges. And the obsession with profitability and 'finance only' implied higher interest rates and left many poorer clients with little or negative impact, lending credibility to the accusation of usury. While the Non-Payment Movement could be understood as a Polanyian countermovement to the problems created by market development, its ultimate political objectives however seem to offer only dubious perspectives for future inclusive economic development.

1. INTRODUCTION

Despite old and new scepticism (Mosley & Hulme, 1996; Weber, 2004, Dichter & Harper, 2007; Bateman, 2010), microfinance was and is often praised as one of the most successful initiatives of poverty reduction (Yunus, 2003; UNCDF, 2005; Campbell, 2010). The microfinance sector has also developed into a worldwide profitable niche of the financial industry. Mainstream financial policies, emanating from CGAP and multilateral agencies such as the International Finance Corporation (IFC) and the Inter-American Development Bank (IADB) have supported this evolution vigorously. IADB and IFC have published from 2007 onward an annual 'microscope' of the worldwide climate for investment in the sector as one of the support initiatives of the commercializing industry. This annual document, elaborated by the Economist Intelligence Unit, informs investors about the regulatory environment, the investment climate and the institutional quality of the microfinance institutions (MFIs) in all countries (Economist Intelligence Unit, 2007, 2008, 2009, 2010). The 'microscope' also aims to motivate governments to adopt adequate policies that will succeed in attracting more investors to the sector. The report perfectly fits into the mainstream vision on microfinance, i.e. a full-blown niche of the private financial sector which has outgrown its childhood of non-governmental microfinance organizations, financed with donor grants and subsidized credits from social investors, and ready to take its place in the international financial system (Helms, 2006). The document reflects the transformation of the worldwide microfinance industry, where private investment funds gradually start to replace bi and multilateral investment funds, social investors and traditional donors, and in this way ensure the expansion of the microfinance industry.

In the 2009 'microscope' report, Nicaragua stood on a 7th place in the ranking and even 4th in terms of the institutional development (level of competition, Credit Bureau, variety of services). According to IFC and IADB, Nicaragua was a top country for investors. Following such advice, also supported by the excellent rating reports for many individual MFIs, Nicaragua became a poster child of the international microfinance investors and industry. Nicaraguan MFIs, consisting of three regulated MFI-banks and nineteen non-regulated MFIs grouped in the strong sector organization ASOMIF[1], were especially praised for their institutional capacity. The MFI Procredit, of German origin, with one of its first regulated divisions in Nicaragua, is generally considered a quality label in the international MFI-sector in itself, the MFI-bank Banco del Exito (Banex, "Bank of Success") even carried an IFC-certificate of good governance on its website, and the largest non-regulated MFI, Fondo de Desarrollo Local (FDL), won several international prizes, including the 2005 Inter-American Bank of Development Prize of Excellence in Microfinance among the non-regulated MFIs of the continent as well as a Central American Bank of Economic Integration award for capitalization of small and micro enterprises. On the initiative of ASOMIF, a national credit bureau (Central de Riesgos) was created to which also the commercial banks and the MFI-banks (somewhat reluctantly) joined. One of the key attractions of Nicaragua was also the exceptionally high proportion of rural microfinance, including substantial finance for agriculture and animal husbandry[2]. The latter is certainly the

[1] In Nicaragua, there are two forms of regulated MFIs: MFI-banks and non-banking financial institutions. (The first are full banks, the latter have more limitations, i.c. in terms of deposits and savings. In this article, we use the term 'MFI-banks' to designate both forms of regulated institutions.

[2] Worldwide there is a relative lack of rural (micro)finance in general, and agricultural and livestock finance in particular. This is evidently a weak point in an industry which claims a central place as a strategy

merit of the FDL that is widely recognized as the pioneer of sustainable agricultural and livestock finance and has been the vanguard MFI for rural microfinance in ASOMIF.

Private investors who were lured into making large investments in the Nicaraguan microfinance sector, either by the excellent qualification of Nicaragua in the IADB-IFC microscope and/or the almost always impressive private rating reports of individual MFIs got a very unpleasant surprise in 2009 when the four largest MFIs lost 28.8 million US$. In 2010, losses in the same MFIs totalled another 12.3 million US$, and investors ended up losing tens of millions of dollars in the bankruptcy of BANEX. In the 2010 IADB-IFC microscope Nicaragua is only outperformed in speed of descent in the rating list by the Democratic Republic of Congo. According to the report this evolution 'was mainly due to the negative effects of the "Non-Payment Movement"[3] on the regulatory environment and financing conditions for microfinance institutions (MFIs)' (Economist Intelligence Unit, 2010:9). We will argue however that this diagnosis of the impact of the rebellion of (mainly Sandinista) microfinance clients is incomplete and that a critical analysis of mainstream policies also needs to be included in the explanation of the crisis and its consequences.

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for poverty reduction, given that about 70% of the world's poor population lives in rural communities and directly or indirectly depends on agriculture for its livelihoods (World Bank, 2008)

[3] The official name of the 'No Pago Movement' is the 'Movimiento de Productores y Comerciantes del Norte' (Movement of Producers and Traders of the North). It indicates that it initially was a geographically confined initiative, which only afterwards spread to most of the country, be it that the Northern region remained its stronghold.

2. MAINSTREAM MICROFINANCE POLICIES

Up to 2009, the evolution and the policies of the bi- and multilateral actors in the Nicaraguan microfinance industry largely match the mainstream-paradigm. This paradigm states that MFIs must be upgraded to MFI-banks after an initial phase of institution building and be incorporated into the formal financial system (Helms, 2006). It is also considered a possibility that existing commercial banks could downscale through the creation of a microfinance branch, but this does not seem to happen all that often in practice, except for the massive expansion of credit cards carrying very high interest rates (over 70% annually in the Nicaraguan case)[4]. In this financial systems approach, the MFIs gradually come under the non-prudential and ultimately the prudential oversight of the financial authorities so as to guarantee the discipline and deontology of commercial practices. Moreover, this evolution also enables the collection of local deposits and savings, and more importantly to broaden access to international capital markets. In this way, it is possible to finance further growth with massive and relatively cheap new funds as well as to broaden the range of financial services (besides microcredit).

In the Nicaraguan context, this mainstream philosophy was translated into concrete policy advice in a CGAP-CLEAR report from 2005 (Flaming et al., 2005). This report acknowledges the great progress in the Nicaraguan MFI-sector, but it also disapproves of an ‘obsession with credit’ and a lack of other financial services (i.c. savings), while several donors are criticized for giving subsidized resources to targeted rural financial initiatives. The main policy recommendation of the report argues for a coordinated donor policy in a financial system perspective, headed by IFC and IADB. This implied that bi- and multilateral donors should stimulate the ‘mature MFIs’ of ASOMIF to transform themselves into regulated MFI-banks[5]. The German (and indirectly the Dutch and Belgian development cooperation through their participation on the Procredit Holding) are presented as the example to follow because of their role in the conversion of the non-governmental MFI Confia into the regulated Procredit Bank.

These policy recommendations translated into broader and relatively cheap funding for the regulated institutions (Procredit and Banex) through bi- and multilateral investment vehicles (see table 1). Non-regulated institutions did not have access to these funds. Given the Belgian antecedents of the FDL (which was initially funded by Belgian donor funds), the FDL requested funding from the Belgian Investment Organization (BIO) because of its attractive interest rates, but was refused access for not being a regulated institution. Both Banex and Procredit received substantial investments from BIO. Similar principles and policies were applied by other (semi)public investment organizations as the Dutch FMO or the German KfW. The multi- and bilateral investment sources for the non-regulated MFIs (FDL, Prestanic) reported in table 1 all relate to targeted rural development programs (criticized in the CGAP report), a special line of funding for microenterprises from a non-financial branch of the IADB and an MFI-fund from the CABEI (which is the only multilateral actor which apparently was not complying with the CGAP recommendations).

The declared aim of this generous multi- and bilateral funding was also to crowd-in additional private commercial funding. To a certain degree, this is indeed the case particularly in

[4] In the Nicaraguan case, there were also a small number of special funds for credit to (not all too) small and medium enterprises by the commercial bank Bancentro.
[5] See Bastiaensen & Marchetti (2007) for a more detailed analysis of mainstream financial policies.

Banex and to a lesser extent in FAMA. For Procredit, the private-public interaction takes place at the level of the mother holding in Germany, where at least until the recent microfinance crisis, a tendency towards a larger participation of private investors was apparently taking place. It is notable, however, to observe that the non-regulated FDL (as well as many others MFIs) does enjoy private commercial investments similar to those of the regulated MFI-banks, in particular of Blue Orchard, which is an important private investor in Nicaragua, among others also with significant investments in Banex. The exclusion of non-regulated institutions, applied by the bi- and multilateral actors, is thus not followed by the private investors. This provides some indications of crowding out of private investment by the generous public and semi-public investments (Abrams & von Stauffenberg, 2007), although this problem seems to have decreased gradually. The limited data in table 1 and additional interviews with ASOMIF further indicate a significantly larger presence of social investors in the non-regulated MFI-sector. More detailed information for the non-regulated sector is not available, but interviews with ASOMIF institutions indicated that this tendency is even more pronounced in the other MFIs for which we do not have information.

Table 1: Liabilities of the five most important MFIs in Nicaragua, end 2008

	Multilateral investors*	Bilateral investment-funds**	Social investors	Commercial MFI-funds	Private banks	Other
Regulated MFI-banks						
Procredit	60%	30%	11%	0%	0%	0%
Banex	22%	20%	13%	39%	6%	0%
Fama	15%	20%	16%	23%	15%	10%
Non-regulated MFIs						
FDL	13%	14%	36%	29%	2%	5%
Prestanic	12%	26%	37%	8%	0%	17%

Source: Calculated from balance sheet data by Pablo Acarbar, quoted in Roodman (2010)

* Multilateral institutions (IFC, IADB, BCEI) and investment funds supported by different bilateral donors and/or investment funds. In the case of Procredit, this includes investments from the mother holding, which is a joint venture of different bilateral investment funds and (less prominently) private investors. Unfortunately, it was not possible to distinguish between investments from specialized financial institutions and other multilateral development programs investing in microfinance

** Including MFI-investments through the Nicaraguan public investment institutions (FNI) as well as development projects financed by bilateral donors (Fondeagro, DECOPAAN, etc.).

These figures also show that as a consequence of mainstream policies a certain dichotomy in the Nicaraguan microfinance sector has emerged. There is a ‘Major League’ of regulated MFI-banks, that can count on broad public support and gradually (are to) become the playing field of mayor commercial private investors, and a ‘Minor League’ of non-regulated MFIs-NGOs, which have to rely on social investors and specific development programs, some of them expected to graduate to the ‘Major League’ and others destined to survive on a small scale in specific niches or simple to be outcompeted by their more efficient and powerful regulated competitors[6]. Quite striking is the lack of coordination between the investors in the two divisions of the sector. Bi- and multilateral investors focus almost exclusively on the regulated MFI-banks, where they are directly and indirectly (through their implicit or explicit guarantees of the quality of the institutions) co-responsible for a spectacular fast growth of the loan portfolios with 42% per year (table 2). They only engage with the non-regulated MFIs through specific projects with MFIs who have decided to make the transition to the Major League of regulated MFI-banks (ACODEP, FINCA)[7]. On the other side, targeted development projects, social and private investors finance a complementary growth of loan portfolios with 24% a year in the non-regulated segment. In this way, the total loan portfolio of the Nicaraguan microfinance sector tripled from US$ 184 million to US$ 559 million in five years time, while total clients almost doubled from 298,359 to 559,000 in the same period.

Table 2: Loan portfolios of Nicaraguan microfinance institutions, 2004-2008 * (mio US$)

	2004	2008	Annual growth rate
Regulated MFI-banks: Procredit, Banex, (Fama since 2008)	77	313	+ 42%
Non-regulated MFIs (Asomif): 19 MFIs	105	246	+24%
Total portfolio	184	559	+ 33%
Total number of clients	298,359	503,201	+ 14%

Source: Own calculations based upon information from Asomif and the Superintendencia de Bancos de Nicaragua (SIBOIF).

* This table does not include the (mostly limited) portfolios of smaller financial NGOs and savings- and credit cooperatives, which with the exception of the Cooperativa 20 de Abril are not members of Asomif and for which we do not have detailed information. One of these savings- and credit cooperatives deserves a special mention, i.e. CARUNA or ALBA-CARUNA as it is called today, which is allied to the Sandinista party and does manage a significant (but unknown) portfolio of loans and has probably also grown substantially in recent years with the return of the Sandinistas to power.

Finally, we also need to observe that the Nicaraguan government is almost completely absent in this microfinance story. All Nicaraguan MFIs are private ventures, initiated by religious development programs, local NGOs[8], or private for-profit initiatives. Only at the very beginning of microfinance in Nicaragua (2000) there was an initial capital donation from the

[6] As the ‘Minor League’ players were not considered to be mature and competent financial actors, their regular pre-crisis complaints and warnings about irresponsable behaviour of Banex were not taken seriously by the relevant international financial stakeholders.
[7] Mismanagement implied that the planned regulation of Acodep aborted prematurely; FINCA recently became a regulated MFI-bank.
[8] Some of these MFIs were created by former Sandinista functionaries, who lost their employment in government with the electoral defeat in 1990. Today, most of them seem to prefer to keep at a distance from active involvement in the current Sandinista government. During the negotiations between the MFIs and the Sandinista government in the context of the microfinance crisis this entailed a remarkable dynamic of negotiation and tensions among ‘friends from old times, but not (entirely) of today’.

Nicaraguan government to a selection of smaller MFIs. At that time, also the commercial law was adapted in order to legalize microfinance operations as 'loans among private agents'. A general version of a specific microfinance law was adopted in parliament some years ago, but it was never transformed into effective legal provisions so it did not become operation until today. On the other hand, a populist, but quite voluntaristic anti-usury law was adopted in 2001, introducing maximum interest rates for 'loans among private agents'. Since then, the Central Bank each month publishes an official maximum interest rate which has varied between 4,31% - 23,27% per year. This law was quite detrimental for the transparency about credit costs, since it obliged the MFIs to introduce additional fees (commissions, separate administration costs, contributions for technical assistance, etc.) in order to be able to recuperate the inevitably higher transaction and financial costs[9]. Because of this law, the MFIs also balanced themselves at the verge of a quite unclear frontier of legality in their operations.

With the return of the Sandinistas in power, the Nicaraguan government (and institutions close to it) also returns as a more active provider of microfinance, first with the expansion of microfinance through the Sandinista credit and savings cooperative CARUNA, which is reformed into ALBA-CARUNA, receiving new funds from a solidarity fund linked to the Venezuelan oil deliveries. The new government also started an urban, subsidized microfinance program with the expressive title 'Usura Cero' (No usury) under the control of the Sandinista community participation councils (CPC). And also the rural subsidized capitalization program 'Hambre Cero' (no hunger) includes a limited financial component in the form of small self-managed community funds, although it is not entirely clear how effectively these work. Furthermore, the new government –with broad multi-party support- also recreated a public development bank (Produzcamos), which on a relatively small scale initiated operations in 2009. This new and changing political dynamics will play an important role during the microfinance crisis of 2009 and actually brings the 'horror' of the possible return of clientelistic state financing, strongly repudiated in the CGAP report (Flaming, at al, 2005) back to the present financial scene in Nicaragua.

[9] In 2008, the internationally quiet efficient FDL had an average funding cost of 7,6% and administration cost of about 13,5%. Even without the need for the provisions for default (less than 2% in the good years) and a profit margin (if only to increase capital and reserves in order to allow for the growth of the portfolio) the necessary average interest rate is already 21,1%. (Before the crisis, the average effective interest rate of the FDL was about 28%, with the more expensive urban credits subsidizing cheaper rural loans (around 24%) and a specific development portfolio aimed at rural poor, women as well as environmental sustainability (see Bastiaensen & Marchetti, 2011 for details).

3. THE MICROFINANCE CRISIS SINCE 2009

After a period of excellent financial results and spectacular growth from 2000 onward, with only some minor signals of weakening in 2008 (Redcamif & Mixmarket, 2009), the entire MFI-sector entered into a severe crisis in 2009. Table 3 gives an overview of the evolution of the total problematic portfolio[10] for Procredit, Banex, Fama and FDL, together making up 69% of the total microfinance supply in Nicaragua at the end of 2008, in comparison with the indicators for the Nicaraguan private banks. We can observe that already at the beginning of 2009 the indicators of total problematic portfolio, with percentages between 4% and 8% were not quite optimal, and did not match the percentages of 1% to 3% of earlier years. During 2009 and 2010, the situation worsens dramatically with catastrophic indicators for Banex and extreme to very problematic indicators for all other institutions, including the private commercial banks (table 3). It should be noted that in particular the problematic portfolio of the two remaining regulated MFI-banks, Procredit and FAMA, remains quite high and worrisome, although FAMA together with the private commercial banks, both concentrated in urban financing, show minimal improvements in 2010. Procredit and to a much lesser degree FDL, both with significant productive rural portfolios, continued to register further declines in 2010. In other words, a glance at the following chart indicates that the crisis is far from over in Nicaragua.

Table 3: Total problematic portfolio of regulated MFIs, FDL and private banks (2009, 2010)

	End 2009	End 2010	recovery/decline portfolio quality (*)
BANEX	39,4	Bankrupt	
PROCREDIT	13,0	14,7	-1,8%
FAMA	16,4	13,7	+2,7%
FDL	7,3	7,4	-0,1%
Private banks	10,7	9,9	+0,8%

(*) +/- of percentage share of problematic portfolio

Source: SIBOIF, FDL

Logically, these negative indicators translate in significant losses for all MFIs (table 4).While the results for FDL and FAMA have improved during 2010, even when pre-crisis profit levels are still far away, the losses of PROCREDIT have further deepened. Paradoxically, it is the non-regulated FDL[11] with a loss of 2,5 mio US$ in 2009 and a small profit in 2010 which is performing relatively less poorly.

[10] We define 'total problematic portfolio' somewhat unorthodoxically as the sum of portfolio at risk >90 days, rescheduled and restructured loans, and loans with judicial action.

[11] It needs to be observed, however, that the FDL in view of possible future regulation voluntary follows the prudential criteria of the SIBOIF for some years already.

Table 4: Financial results of four largest microfinance institutions, Nicaragua, 2009-2010

	2009		2010	
	US$ million	% portfolio	US$ million	% portfolio
BANEX	-16,10	-14,0 %	-	-
PROCREDIT	-7,75	-6,8 %	-10, 93	-12,5 %
FAMA	-2,53	-8,5 %	-1,34	-5,8 %
FDL	-2,44	-3,5 %	0,19	+0,3 %

Source: Siboif and FDL.

These dramatic financial results forces all MFIs, and in particular the regulated MFIs, to substantial recapitalizations. In the case of Procredit, the new capital comes from the mother holding in Germany, but in Banex the more varied shareholders cannot reach an agreement about recapitalization, probably also due to a lack of faith in the future viability of the institutions which also in 2010 continues to deteriorate. The Central Bank therefore had to liquidate it in the course of 2010. There is enough liquidity to return deposits and savings to the general public, but international investors lose millions of US$. Even though it is not yet regulated, also the FDL is forced to improve its capital position in order to comply with international rating criteria, something that it has been able to do with the support of some of its traditional investors., especially in the form of expanded subordinated debt.

It is difficult to find detailed information about the rest of the non-regulated MFIs. It is clear however that there are similar, severe problems in this segment, albeit also with significant variations in performance among individual institutions. For all the MFIs of ASOMIF together the PAR > 30 days jumped from 3% in 2007 to 20% in 2009 and declined slightly to 18% in 2010. The total problematic portfolio was estimated at about 35% in June 2010 Some MFIs (i.e. Fundación José Nieborowski) ceased to operate in 2010 with great losses mainly for social investors. Others also needed recapitalization and most try to maintain their credibility towards international investors by strict repayment of their loans, which in the absence of refinancing leads to drastic decreases in portfolios. As a consequence, the total portfolio of the unregulated MFIs of ASOMIF, other than the FDL, dropped by 33 % from US$ 177 million in 2008 to US$ 118 million at the end of 2010. Contrary to the larger regulated MFI-banks and the FDL, the decline however already started in 2007 probably as a consequence of the increasing competition from the regulated MFIs.

Table 5: Evolution of total credit portfolios of commercial banks, MFI-banks and non-regulated MFIs, Nicaragua, 2007-2010 (in million US$)

	End 2007	End 2008	End 2009	End 2010	% change 2008-2010
BANEX	125	139	115	0	-100%
PROCREDIT	124	134	114	87	-35%
FAMA	32	41	30	23	-43%
Regulated MFI-banks	281	313	260	110	-65%
FDL	53	69	69	62	-10%
ASOMIF	211	177	142	118	-33%
Non-regulated MFIs	264	246	212	180	-27%
MFI total	545	559	471	290	-48%
Private banks	1903	2019	1820	1927	-5%

Source: Calculated from data provided by the Superintendencia de Bancos de Nicaragua (SIBOIF), FDL and ASOMIF.

It is clear that we are witnessing a drastic reconfiguration of the Nicaraguan microfinance landscape. The total microfinance portfolio has decreased by 48% from 559 US$ million US$ to 290 US$ million and we may fear that particularly access by the poorer clients has worsened most. In the case of Procredit, for example, a decision was taken to limit credit operations to clients demanding at least 2500 US$ (more than twice the average per capita income). The largest drops clearly took place in the regulated MFIs, who had experienced the most excessive growth during the Nicaraguan microfinance bubble, and logically paid the price for their rapid and low quality expansion which might also have eliminated higher quality pre-bubble ASOMIF portfolio. The significant decrease in private microcredit supply is only partially compensated by the all in all limited expansion of finance by the Nicaraguan government, at least in the short run.

4. THE MULTIPLE CAUSES OF THE CRISIS

As we indicated above, the responsibility for the severe microfinance crisis is typically laid with the so-called 'Non-Payment movement' of revolting clients. Sometimes reference is also made to the role of the economic crisis of 2009: the negative growth of GDP with -1,5%, the fall in temporary employment in Costa Rica and of the remittances of permanent migrants in the US and Costa Rica[12] as well as the crisis in the cattle sector (particularly in the Northern part of the country). A closer analysis however reveals that problems were also and perhaps primarily the consequence of the extremely fast and uncoordinated growth of the sector itself. The ensuing problems are an important underlying cause of the crisis, which provided the context in which the politically manipulated Non-Payment movement, as a symptom more than as the initial cause, had a great opportunity to become relatively successful. Furthermore, the legitimacy crisis of the MFIs was also related to the nature of the commercial, purely financial model of microfinance that is promoted by mainstream policies, even when an alternative approach might not have automatically solved all of the political problems.

4.1. Uncoordinated growth, cut-throat competition and over-supply of credit.

A first element which catches attention in the above analysis is of course the extremely fast growth of all MFI-portfolios, but in particular within the regulated segment (table 2). Attracted by the reputation and the positive reports about microfinance in Nicaragua, the historically high profitability of the Nicaraguan MFIs (returns on equity of 20% or more were no exceptions within the regulated segment) and/or the significant rural penetration of the MFIs, international investors queued up to generously finance Nicaraguan MFIs. In the process, everyone lost sight of the fact that the traditional urban MFI-markets were gradually saturated such that the competition between MFIs strongly increased and several originally non-rural MFIs (including Procredit and Banex) also entered into agricultural and cattle financing. The logic of the 'Major League' of regulated MFI with ample access to cheap finance and a 'Minor League' of non-regulated MFIs which in time had to disappear, introduced an additional element in the competitive struggle. Especially Banex followed a quite aggressive competitive model, in which both personnel and clients of other MFIs were bought away through respectively higher wages and through new, more voluminous and advantageous loans. A story is known were almost an entire branch of Procredit was taken over by Banex, while not that far away from that place precisely the opposite occurred. In the rural sector, the pioneer FDL faced aggressive competition by the regulated and other non-regulated institutions, forcing them to become more flexible as well in order not to lose the historical clients that 'they created'[13].

[12] It is estimated that more than half a million of Nicaraguan work abroad, mainly in Costa Rica and the U.S. The total population of Nicaragua totals somewhat more than 5 million inhabitants. The 'export' of Nicaraguans thus became the most important export item with somewhat less than 1 billion US$ in recorded remittances.
[13] Wiesner & Quien (2010) recently argued that such negative impact on microfinance practices by highly visible and thus overfinanced 'leading MFI's' can be discerned more generally in the microfinance industry and poses a problem that funders needs to address urgently.

This harsh and not always deontologically responsible competitive struggle explains also why the credit bureau Sin Riesgos, started in 2007 by ASOMIF, was not a clear success until the crisis of 2009. Different MFIs chose not to report that they had ‘stolen away’ clients from other MFIs. As a consequence, nobody had a clear view on the extent of the growing over-indebtedness of many clients. Competition and the pressure to transform the (all too) generous international funding into new loans also stimulated a phenomenon of multiple loans and recycling of debts in which new, larger loans are used to pay off old debts. Microcredit was sold like “hot rolls” and sometimes almost forced upon (poor) people. During field research about female entrepreneurship and microfinance in Muy Muy, a student found several cases of small shopkeepers with three, four and even seven outstanding loans. One of the women told that she took loans because ‘the credit promoter was sympathetic and quite insistent’ (Van Krieken, 2009). This anecdotic evidence does not seem to be an exception in Nicaragua, where almost everybody –including richer people from middle and higher classes follow the ‘American style’ of living in debt and not saving[14].

With all this, the Nicaraguan MFI-sector functioned increasingly as one big Ponzi-scheme where the increasing resources from international investors were used to capture clients from other MFIs by refinancing their old debts with these institutions. In this way, the international investors themselves contributed significantly to the excellent financial indicators of the MFIs which further fuelled the international urge to fund Nicaraguan MFIs[15]. In other words, the abundant money attracted ever more new money. In this way, and with a high degree of co-responsibility of the international microfinance funders, a real financial bubble was created which exploded during the economic crisis of 2009. As it is common during this type of crisis, the flow of new funds stops immediately and everybody became distrustful and increasingly rigid in the approval of new loans and the reclaiming of outstanding debts (both at the level of the international investors as well as the MFIs towards their clients). It explains why we see an explosion of judicial actions against defaulters, including confiscations of collateral and even imprisonment, from the end of 2008 onwards, and why in a reaction to this the Non-Payment movement could capitalize on its discourse of inhumane treatment of clients for the ‘profit motives’ of the MFIs.

4.2. Conventionalisation and legitimacy problems

Coupled to the all too generous financing of the Nicaraguan ‘success story’ (sic) is a promotion of what we would call a ‘European-American model of professional commercial banking’. With this, we mean to indicate that contrary to the initial principles and methodologies of microfinance there is a growing reliance on contractual loan arrangements and courts as a means to guarantee repayment. Where initially the microfinance revolution was based upon contractual innovations as group loans with peer selection and monitoring (social pressure) (Morduch, 1999; Varian, 1990) as well as principles of social proximity (Labie, 1999) in order to guarantee the legitimacy and viability of the credit contract, one has started to rely increasingly on individual contracts and legal guarantees with hard collateral (pledges, even mortgages).

[14] It is therefore quite justified that people insist on the need for basic financial education for everyone in the current context (Vega in La Prensa, 6 september 2010).
[15] A quite similar process took place in 2009 in Morocco, Pakistan, Bosnia-Herzegovina (Chen et al., 2010) and more recently in Andra Pradesh, India. (CGAP, 2010)

This has weakened the social embeddedness of MFIs in the institutionally difficult rural context of Nicaragua, especially for latecomers like Banex and Procredit, but also for other more traditional MFIs under the pressure of upscaling and stringent efficiency targets, which require the number of clients per credit promoter to rise to over 400 per year.

During the crisis in 2009, many MFIs and the international investors even more so argued strongly –including a fruitless public call upon the Nicaraguan president- to respect the 'Rule of Law' in order to guarantee contractual obligations. One problem was that there were also some remarks to be made about the 'legal' practices of some of the MFIs. There was, for example, one particular court where an MFI-friendly judge almost systematically ruled in favor of the MFIs such that many cases against defaulters were concentrated there. Above we have also already noticed that since the anti-usury law of 2001, the MFIs were operating in a grey area as to the legality of their operations, because it was not possible to cover all of their costs through the maximum interest rate. This did not contribute to contractual transparency and often the client could not - even after a detailed study - find out which costs she was precisely paying. Sandinista judges, sympathizing with the Non-Payment movement, therefore often had little difficulty in cancelling repayment obligations due to the alleged illegality of the transactions. The important conclusion here is that in countries, like Nicaragua, with a weak legal-institutional framework an almost exclusive reliance on courts to guarantee contractual arrangements and repayment place MFIs –no matter how 'professional' they may be- in a very fragile position once the legitimacy of their operations and existence is locally questioned[16]. This is precisely what happened to the aggressive Banex[17] and to a lesser extent the other MFIs, with the known dramatic consequences. The MFIs important contribution to the restoration of the repayment culture after the disastrous years of the first Sandinista administration (1979-1990) has all but disappeared and will need to be rebuild through the re-establishment of qualitative MFI-client relationships

It is no coincidence that those MFIs with a relatively stronger social embeddedness, like the historical pioneer FDL and a handful of locally embedded MFIs, have done relatively better during the crisis, since they have been more successful in defending the local legitimacy of their operations. Since 2008, the FDL has also engaged in an intensive discursive struggle to defend its local legitimacy, among others with a series of local meeting with clients at the level of rural hamlets. There they try to explain that sustainable microfinance requires regular and timely repayment and (without subsidies) has to charge relatively high interest rates. With their slogan 'Cuida tu record' (take care of your record on file) they also argue with relative success that repayment is also in the interest of the clients as her/his historical credit record defines the conditions of access to future credit[18]. Surprisingly, there

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[16] The recent crisis in Andra Pradesh sheds more light on this issue. Also there, the MFIs dramatically lost their legitimacy in the context of a similar microfinance bubble, but also as a consequence of general indignation with the 'successful' IPO of the commercial MFI SKS, enriching its original shareholders after the sale of the shares in the stock-market, and the news about the excessive wages for the 'professional' CEO (CGAP, 2010).

[17] In a conversation with the leadership of the Non-Payment Movement in December 2010 they made a empathic difference between Banex ('a real monster') and the other MFIs (which they didn't like much either). It is interesting to note that precisely an institution which had a certificate of 'good governance' of the IFC on its website faced such severe legitimacy problems.

[18] The success of this strategy also hinges on securing sufficient new funds in order to continue honouring the implicit commitments to historical clients with a clean credit record. The tendency of

were only few other MFIs who have engaged in such systematic confrontations with their clients. At the same time, it needs to be noted that the FDL did not want to take an excessively rigid stance vis-à-vis its clients in the many cases with objective repayment problems, especially in the cattle sector (see further), where many restructured loans have been allowed[19]. This did not imply however that the FDL was more flexible with the members of the Non-Payment movement, quite the contrary, and in particular not with some of their leaders with relatively large debts with the FDL and unwilling to negotiate about restructuring, Actually, one of the more violent confrontations between the Non-Payment movement and the MFIs during the crisis took place around the FDL in rural Matiguás[20].

Fundamentally, however, this discursive struggle for the legitimacy of credit transactions of MFIs is not really new in the Nicaraguan rural context. In an investigation of 2001 about the success and the failure of the 'Bancos Locales' (today the FDL) in two similar villages near Masaya, we documented how the credit promoters needed to challenge the logic and practices of local clientelistic political leaders[21] (Bastiaensen & D'Exelle, 2002). They also argued, then in the context of a local drought -and just as today inspired by electoral ambitions- that the poor clients were not able and should therefore not be asked to repay, and that they would offer them their protection as patrons (and logically in exchange of their votes). In the relatively poorer village, the FDL lost the discursive struggle and the seed capital of the village bank was appropriated by the local leaders and disappeared in a very short time. Only a number of repaying individual clients were later reincorporated in the FDL through another branch; in the other villages, the repayment discipline was maintained and the relations with the FDL continue until today. A similar struggle took place in 2005 between the FDL and the local Sandinista leadership around the municipality of Somotillo. At that time, the FDL managed to mobilize their client base to undermine the legitimacy of the deliberately defaulting Sandinista leaders and therefore to wither away the political attack on credit culture[22].

These experiences show that MFIs in Nicaragua aiming at financial sustainability must find ways to deal with the omnipresent -Sandinista as well as liberal-clientelistic networks and must try to appeal on those elements of the rural institutional context which support the

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international investors to retreat fully from the Nicaraguan market, despite their obvious co-responsibility in the emergence of the crisis, does not contribute to strengthen Nicaraguan MFIs in their struggle to win this battle for credit culture. (There are obviously collective action problems, and in particular tendencies towards free riding among the different funders, which are at play here.)

[19] As indicated above, the FDL was also aware of its co-responsibility for the over-indebtedness of some of its clients.

[20] Bullets were fired at credit promoters, mortar grenades thrown at the local bank managers house, a car put to fire, and the personnel and clients taken hostage and threatened with gasoline in the local branch.

[21] They also belonged to the Sandinista party in this village. Authoritarian clientelistic practices are however not the monopoly of the Sandinista party as the No Pago movement with its many liberal and even ex-contra (and therefore anti-Sandinista) leaders has proven.

[22] Some hypothesize that during the national Non-Payment Movement, the Sandinista's harsher treatment of the FDL (destroying vehicles and even using a bazooka against the home, wife, and children of branch manager) is due not only to their awareness of the FDL's embeddedness among small rural producers. The Sandinista movement considers that they alone should have access to the poor and excluded. Thus, they treat enemies at the grass roots level more harshly than the private sector with whom they enter into "mutually beneficial" entrepreneurial pacts. The other hypothesis is that the Sandinistas consider the leaders of the FDL, who were once Sandinistas, "traitors to the cause." One of the steadfast rules of mafia like Sandinista organization is "Never forget or pardon treason from inside."

microfinance market, such as a (rather individualistic and subsidy-hostile) work ethos, the desire for autonomy (despite often evident dependence), the ideology of the market and the respect for the law and a given word. They also indicate that microfinance is in fact much more and should be much more than only contract innovation and professional banking; it is about the change of the dominance of inherited authoritarian-clientelistic rural governance structures and their (non-contractual) rules of the game, which on a much more fundamental level relate to the highly unequal, segmented Nicaraguan society. This requires being involved in the mutual construction of new rural subjectivities as well as associated contractual rules and practices that support autonomy and more equal exchange, substituting for the lopsided dependency of patron-client relationships.

From a Polanyian notion of markets as an instituted process (Rankin, 2008: 1967), we argue that MFIs have to face the creation of the social conditions for the functioning of a financial market. And as O'Neill (2001:710) has argued in other contexts: '(t)o invoke "market solutions" is to invoke a particular distribution of power to determine outcomes . . . market solutions are mechanisms for defining and defending particular distributions of social power, and should be understood and contested as such'. Contesting the functioning of the microfinance market is precisely what the Non Payment movement in Nicaragua have done and the future of the MFIs will therefore to a large extent depend on their success in countering this contestation. In order to do so, the MFIs need to weather through the complex social landscape of rural Nicaragua, which such as any social life is 'build upon a variety of (incoherent) discourses and rules of the game, connected to a varied landscape of networks and organizations' (Long, 2001), and in which through an 'institutional bricolage' (Cleaver, 2001) with suitable elements of that same landscape a more solid, and also locally institutionally embedded framework for microfinance transactions with the clients needs to be created. In our view, rural microfinance is precisely relevant for bringing the required rural transformation because of this much more fundamental potential for broader institutional change, even when this potential is seldom recognized in the sector (see also Rankin, 2008; Bastiaensen & Marchetti, 2011).

4.3. Limitations of 'Finance Only'

An important aspect of the struggle for local legitimacy is evidently related to the main accusation of the rebel clients that MFIs are solely interested in making excessive profits from their financial business, charging illegally high interest rates and thereby benefiting from the poverty and desperation of their clients without bothering about possible negative social impact[23]. The traditional defence of the MFIs is of course that both the cost of funding and transaction costs are very high in microfinance and that profits are needed to grow and service more clients (Rosenberg, et al, 2009; Guérin, et al., 2009; Romero quoted in La Primerisima, 2008). Furthermore, many MFIs also have engaged themselves with the so-called double bottom line and aim to achieve both financial and social performance. Social performance management (SPM), i.e. a systematic monitoring of policies in view of stated social objectives,

[23] "The microfinance institutions confiscate our properties, impose usurious interest rates, they put us in jail; we producers are in crisis while they make money and do not want to negotiate." (O. Gonzales, main debtors´ leader talking through Radio Segovias, July 23th 2008, our translation).

is very high on the (inter)national agenda of the MFI-sector[24]. Financed for this purpose by the Dutch NGO Hivos, Banex was acknowledged as one of the pioneers of SPM in Nicaragua. However, SPM did not really turn out to be much more that a small layer of social varnish for a fundamentally financial business. In our view, its elemental flaw is that it does not provide an adequate solution to the lack of impact of an exclusive focus on ‘finance only’.

One can actually observe an interesting and all but innocent shift in the mainstream discourses about microfinance. Whereas in the initial days, the narratives were about credit constrained micro-entrepreneurs, who by gaining access to credit had the opportunity to grow and find a way out of poverty, today one speaks more and more about poor households, surviving in insecure and volatile environments, who through their access to credit and savings increase their possibilities to better manage their vulnerability. This is also connected to increasing scepticism about the social impact of microfinance, which seems to have been exaggerated in earlier years, especially among poor clients, which are often excluded any way (Dichter & Harper, 2007). It should evidently not come as a surprise that microfinance alone is often not sufficient to produce significant social impact and that the latter is at least co-dependent on broader changes in the institutional context of economy and society, including opportunities for complementary interventions and services. The crucial point is that mainstream policies and most MFIs remain (or increasingly become) exclusively focused on their financial operations and in the face of this disappointing social impact do not see this as an incentive to develop a more active strategy of articulating financial with non-financial services as well as social movements and organizations in a so-called ‘Finance Plus’ approach. The role of the MFIs is defined as that of a passive actor, taking note of existing demand and trying to match the solvent part of that demand in today’s’ real economy, without aiming to play a more active role in the creation (and financing) of better conditions for the economic development of their poorer clients (see also Bastiaensen & Marchetti, 2011).

In an alternative vision, which we coin as the transformative Finance Plus approach, rural microfinance –as an operationally independent and commercially sustainable operation or enterprise- becomes articulated with other interventions and socio-political dynamics in view of a broader process of institutional change in the rural economy. In such a perspective, rural microfinance is connected to the development and deepening of social inclusiveness of value chains and the gradual transformation of ecologically destructive and unsustainable land and animal husbandry practices, possibly articulating with new opportunities within the emerging international climate mitigation policies (i.e. the so-called Payments for Environmental Services (Van Hecken & Bastiaensen, 2009)). To achieve such an approach inevitably requires the creation of alliances with relevant poor and less poor social groups and institutional actors, with the local, national and even international capacity to contribute to more fundamental structural transformations of rural institutions[25].

Such broader dynamics are not only important for the ultimate social impact of microfinance on its (poor) clients, but also –and even crucially- for the financial health of the

[24] See e.g. the website of the Social Performance Task Force, http://sptf.info/ or of the Central American site of Proyecto Misión: http://mision.redcamif.org/en/spm-forum/?L=6.
[25] See Bastiaensen & Marchetti (2011) for a descriptive analysis of an emerging integrated social and ecological strategy for value chain development of the FDL in cooperation with its university partner Nitlapan and other actors in the cattle sector of Nicaragua.

MFIs themselves. The specific problems in the cattle sector during the 2009 crisis illustrate this perfectly. In normal conditions, cattle raising and particularly the fattening of livestock, is quite profitable in Nicaragua (partly also because of the unsustainable exploitation of extensive pastures, expanding through continuing, albeit slowing deforestation at the agricultural frontier). In 2008, the top year of Nicaraguan Microfinance, prices for meat and live animals attained unprecedented heights. Unsurprisingly, a large part of the rural portfolio of MFIs and MFI-banks was loaned out to cattle ranchers of all sizes. Yet, in 2009 average meat prices in the national slaughterhouses decreased with about 20%, whereas the prices of live animals –which are normally produced by the smaller and medium-sized cattle producers and then ‘finished’ by rich ranchers with huge farms for extensive cattle ranching- were hit with a drop of more than 50%, especially in the Northern part of the country (where the Non-Payment movement originated). An initial reason for this differential evolution were problems in the Mexican cattle sector, working on the basis of imported corn from the US, which ran into profitability problems as a consequence of rising yellow corn prices, in part due to subsidized transformation of US corn, previously exported at a much cheaper price to Central America, into the agro-fuel ethanol[26]. The fall in Mexican demand for live animals (and thus of Mexican and Salvadoran traders buying live animals in the Northern rural areas of Nicaragua) dramatically reduced local competition for these animals , substantially improving the negotiating power of the larger fatteners-traders. Furthermore, implementation in 2008 of the second phase of CAFTA international free trade regulations prohibiting the export of live animals below 330kg –a means to favor national slaughterhouses- contributed to the demise of the live animals chain to which the smaller producers were connected in a relatively more beneficial way. It is significant that meat prices in the slaughterhouse today returned to their historical level, whereas local prices for live animals continue to be depressed. A policy aimed at making the cattle chains more socially inclusive as well as ecologically sustainable requires a panoply of measures besides microfinance: investments in smaller-scale, silvopastoral intensification, possibly the introduction of environmental subsidies (or Payments for Ecosystem Services) as well as changes in the underlying socio-political power relations which do not permit smaller producers to get a fair, proportional share of value added in the agricultural chains. MFIs who passively follow solvent demand inevitably risk ending up financing both further economic concentration and environmental destruction based upon the existing model of extensive cattle raising. In such a difficult contexts, MFIs who only focused on their financial operations and did proceed to aggressive collection policies of loan arrears faced substantial incomprehension and political resistance. The question here is however to where such resistance leads and whether is brings the desired dynamics of inclusive economic development and democratic rural governance any closer. A more detailed analysis of the Non-Payment Movement shows that this is all but self-evident.

[26] Yellow corn reached its highest price in US (and NAFTA) markets in June 2008 (287 US$/MT), rising from 110 US$/MT in June 2006 over 165 US$/MT in June 2007 (Source: USDA Market News). The significant role of US ethanol policies in this rising corn price scenario is documented in (Randall Fortenbery & Park, 2008).

4.4. A Closer Look at the Non Payment Rebellion

The origin of the current Non-Payment movement can be situated in the beginning of 2008, i.e. quite some time before the outbreak of the Nicaraguan economic crisis in 2009, with a series of imprudent loans of particularly Banex, Procredit and some commercial banks in the Northern Department of Nueva Segovia[27]. These were mainly larger loans (up to 50,000 US$) provided by these two MFI-banks in the framework of their strategy to start operations in the rural sector with which they were relatively unacquainted. Since these loans were guaranteed with solid legal guaranties (pledged cattle branded with the iron of the bank as well as mortgaged buildings and titled land) they did not bother much about possible repayment problems. Most of these clients had a Sandinista background[28], some of them in the military and in the 'Contra' armed groups, and they had established themselves after the war of the 1980s and the loss of Sandinista power as locally powerful entrepreneurs, especially active in cattle fattening and export of live animals to Honduras. Some were originally engaged in timber exploitation; with a legal ban on pine exploitation in 2005, however, many of them reconverted to cattle trade (often contraband). In this, some of them functioned as local patrons in Sandinista networks, while others were managing liberal clientelistic networks, all of them mediating influence and access to resources and opportunities from different institutions. Concurrently, the Sandinista president, Daniel Ortega had returned to power[29], such that the local balance of power between Sandinista and Liberal networks (through their crucial links with 'their' government) was shifting and creating new expectations among Sandinistas, expectations that re-united several gatekeepers to take advantage from the new government.

With the return of Daniel Ortega, the sales of contraband cattle to Honduras dropped , just when legal cross-border trade of live cattle was impeded by new trade regulations. Both factors contributed to repayment problems of the chain of entrepreneurs connected to these cattle operations. Procredit and Banex reacted with judicial action (as dictated by the Financial authorities' regulations), trying to confiscate properties and cattle. As some of the pledged branded cattle had already disappeared to Honduras –technically speaking a fraudulent act- some clients were put in jail. Anyone with insight into Nicaraguan power relations, however, knows that you cannot strip local patrons, protected by Sandinista or Liberal networks, from their property and even less from their physical liberty unpunished. The ex-mayor of Jalapa, himself not a debtor, but a skilful political entrepreneur (and himself at the time

[27] The official name of the 'Non Payment Movement' is the 'Movement of Producers and Traders of the North', indicating that it initially was a geographically confined initiative, spreading to most of the country afterwards.

[28] Current estimates of the FDL and ASOMIF indicate that the Sandinistas represent the majority party influence in the Non-payment Movement. As one producer put it: "The real majority of the Non Payment Movement are cattle raisers". Among the Sandinistas there are two groups: 1) those who have become professionals for the movement and for whom political opportunism is more important than their income as cattle raisers and 2) cattle raisers who remain in the movement for opportunistic reasons in the hopes that being part of the Sandinista movement will pay off in terms of not having to pay or access to other subsidies.

[29] In a sense, the Sandinistas never were out of power. After their unexpected electoral defeat in 1990, Daniel Ortega promised to construct a "government from below with the people". What in fact happened was that the Sandinistas built a government "below the table and beyond the law" buying influences and blackmailing individuals to control key State apparatuses. This control bolsters the clientelistic schemes of the Sandinistas. In our view, this background sets them aside from most other clientelistic "new left" governments in Latin America.

accused of corruption during his reign) saw this situation as an opportunity to mobilize the Sandinista network against all the 'MFI-usurers' who were accused of threatening to steal away the land, houses and even the personal liberty from the 'poor' in order to safeguard their excessive profits from allegedly 'illegal credit operations'. Through their patronage networks it is not difficult to mobilize and in the context of increasing repayment problems due to the economic downturn, they managed with relative ease to mobilize the Sandinista bases. This mobilizing capacity is precisely also the political currency with which they start to negotiate their relations with the new Sandinista authorities, who are keen on strengthening their support network in order to consolidate their power after having won the 2007 election with only 38 per cent of the votes[30].

With the support of a number of local members of parliament (from different political sides) this leads to a first negotiation in Nueva Segovia with the MFIs from Asomif, Banex and Procredit. Invoking their status as MFI-banks, they initially did not want to negotiate; their slogan was 'sed lex, dura lex'. Nevertheless, they found themselves forced to attend these meetings with the Non Payment Movement. An initial agreement is reached about the restructuring of pending debts over a five-year period for those who want, at the cost of losing their access rights to future loans. However, the agreement was never implemented, because Daniel Ortega during a visit to the region in June 2008 torpedoed it. According to some observers, he was attempting to deviate attention away from local discontent about the failure of the new government to deliver promised seeds and fertilizers for the upcoming planting season. Others maintain that he was misinformed, when he called upon the Sandinista public present in the meeting not to protest his government, but to turn to the streets to protest directly against the MFI-usurers[31]. This leads to a second confrontation in Nueva Segovia, including a strike of the MFIs in the region. New fuel for the Non-Payment Movement comes with the outbreak of the national economic and debt crisis in 2009. Possibly also because of discordance between a more radical, political and a more moderate entrepreneurial wing of the Sandinista party, the government was quite ambiguous in discourse and negotiations, but the radical position often held the day on what happened on the ground. There is only seldom open support for the Non-Payment Movement, but at the same time very little is done in practice to avoid or stop the often violent protests and aggressions against MFIs. Furthermore, in March 2010 the Parliament and later also the President approve a Law, demanded by the Non-Payment Movement, installing a temporary repayment moratorium and a compulsory five year restructuration at an 18% interest rate[32]. In June 2010, a new solution seemed to emerge when ASOMIF and the government concluded a formal agreement, including promises to support repayment culture in exchange for

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[30] Probably, it was also an interesting bargaining chip for the leader of the Non Payment Movement, when facing the politicized Nicaraguan courts, where he has to defend himself against allegations of corruption (and from which he is absolved in the course of 2010).

[31] Literally he said the following: "I told you to protest, to make demands; I understand your demands, because it is not easy to break the chains imposed by the governments of the oligarchy and the Empire in only one year and six months. They have chained us from all sides…. You have done well to protest against the usurers, but instead of protesting on the roads you would better protest in front of the usurers themselves; go posting in front of their offices. Be firm, we will support you. (El Nuevo Diario*,* 13 juli 2008). [Note: All Citations in Spanish have been translated to English by the authors.] One day later the office of the MFI Fundenuse was put to fire.

[32] Today, it is clear however that the impact of this strongly contested law (both by the MFIs and their international funders) has been quite limited in practice, either because clients preferred to opt for a separate restructuring (which would not bar them from future access), or because they never intended to pay anyway.

responsible MFI practices (conditions to be included in a new microfinance Law that was promised). Also this formal agreement remains dead letter and even the formal promise to strive for a new microfinance law in the November 2010 Letter of Intent with the IMF did not produce the long awaited settlement. In the meantime, the leader of the Non-Payment Movement did offer his support for the contested re-election of Daniel Ortega, promising him the votes of his followers (La Prensa, 17 December 2010). In the current climate before the November elections; the promise made to followers in the circles of the Non Payment Movement is that, once re-elected, Daniel Ortega's government will take over their debts.

It is self-evident that the protests, chaos and violence of the Non-Payment Movement is a very negative, compounding factor in the Nicaraguan microfinance crisis and today does not contribute at all to a quick reestablishment of a repayment culture, and even less to the confidence of foreign investors in the Nicaraguan microfinance industry. The discursive struggle with their clientelistic networks remains a significant challenge for several weaker MFIs with a declining portfolio due to a lack of fresh international funding, impeding necessary promises to honor future loan applications of clients with a good record. If nothing changes in this context, it can therefore be feared that more of the weaker MFIs will have to be foreclosed. Ultimately this does not seem to be a very favorable perspective for the protesting clients either, given the drastic decline in the supply of credit.[33] Furthermore, it seems to hurt the poor relatively more since they turn out to have less access to the alternative sources. An internal letter of the Non-Payment leader from January 2010 makes it very clear however that at least for a part of the movement (and its political supporters in government circles) the main purpose was to destroy the private microfinance sector, or at least to weaken it to such an extent as to facilitate direct political control over its operations. This could be achieved by the expansion of operations of the public-sandinista initiatives, in particular ALBA-Caruna and the new state development bank Produzcamos (El Nuevo Diario, 5 January 2010). Even when the latter – possibly also under pressure from the IADB which despite its ideological opposition to state banking committed 20 million US$ of fresh resources to it- tries to profile itself as a serious, professional new-style public financial institution and openly pledges not to fall back into the old disease of political, clientelistic favoritism (and disastrous repayment performance). The leader of the Non-Payment movement nevertheless seems to feel confident in the face of government pledges to safeguard and strengthen the culture of repayment. Confronted with the discourse of the technicians of Produzcamos that they would not lend to people without a clean credit history, he confidently stated that the Moratorium Law actually enabled members of the movement to clean their historical credit record and thus have access to Produzcamos. And he expressively added "This thus does not worry us, we know what the rules of the game in this country are" (La Prensa, 28 January 2010, emphasis added).

The political core in all this lies with a fundamentally political assessment of the socio-economic networks around existing MFIs. At least by some, these seem to be viewed as (potentially) dangerous autonomous social spaces with only limited Sandinista influence and control. Entirely in line with the strategy of the former, corrupt liberal president Alemán (today a de facto ally of Ortega), the Sandinista party tries to (re)build and strengthen local patronage networks through the channeling of generous support (including economic resources) towards

[33] See our analysis of this problem in sections 1 and 2. Especially the declines in the portfolio of the smaller MFIs has hurt and will continue to hurt small rural producers, even those who did not participate in the Non Payment Movement.

local patrons, such as the leaders of the Non-Payment Movement as well as all kinds of social advantages for the dependent, poor ‘clients’, often financed through the private Nicaraguan-Venezuelan joint venture ALBANISA. Sandinista controlled credit provisioning is a very useful political tools in this endeavour, while a network of private MFIs with all too autonomous clients working within market-type transactions seems to be viewed as a potential threat for the consolidation of the Sandinista project. On a fundamental level, this is also linked to the underlying structural ‘socialist’ economic project of the new Sandinista government. In line with its 1980s developmentalist modernization strategy (Bastiaensen, 1988), this project rejects the development of a broad sector of autonomous small and medium-sized rural enterprises and tries to establish a close, politically controlled alliance between the relevant state institutions, cooperatives, federations of cooperatives and large scale ALBANISA processing and trading enterprises who substitute for the state enterprises during the first Sandinista reign and whose private profits should also finance a kind of semi-public solidarity and redistribution (the so-called Bono Solidario of the president)[34]. The big practical problem with this strategy is that –at least for the time being- the Sandinista government does not possess sufficient funding and technical human capacity to replace the private MFIs to a sufficient degree. Therefore, and again at least for the time being, there still remains space for the recuperation of the sector, in particular for regulated MFI-banks whom as capitalist enterprises –through the excellent relationships of the Sandinistas with the dominant private entrepreneurs of COSEP- are paradoxically better protected than the non-regulated MFIs from attempts of Sandinista interference[35].

[34] On a pragmatic level, this change avoids the necessity to privatise formal state property if political power were to be lost as had happened during the so-called ‘piñata’ after the unexpected electoral defeat of the Sandinistas in 1990. Further changes with respect to the revolutionary period of the 1980s are an increased respect for macro-economic equilibria and market forces, which also allow for a more workable alliance with the non-Sandinista private sector, amply benefiting from similar privileges as the ALBANISA enterprises. Of course, and despite abundant anti-imperialistic rhetoric, also the geopolitical context is quite different and has enabled the Sandinista government to largely avoid confrontation with the U.S.

[35] This therefore is also a reason why non-regulated MFI opt to transform into a regulated MFI-bank. Similar dynamics are observed in Ecuador and Bolivia (Bédécarrats, Doligez & Bastiaensen, forthcoming).

5. CONCLUSION

We can conclude that the Non-Payment Movement could indeed be viewed as a kind of Polanyian countermovement in the sense that it represents a reaction from society against the working of the microfinancial market. The key problem is however that this countermovement is generated from within authoritarian-clientelistic socio-political structures, which are closely related to the fundamental institutional core of the unequal and segmented development of rural Nicaragua. The all too narrow commercial focus on finance only and the lack of deeper social embeddedness of the private microfinance sector clearly weakens its bargaining power and persuasiveness in the discursive struggle for local legitimacy. Clients (and in particular poor clients) actually have to chose between an option for a potential pathway of autonomy through honoring their contractual obligations (gaining and maintaining a kind of market citizenship), or a Faustian deal with the dominant groups where they trade their independence for short term survival and advantages. In this perspective, it is perhaps a hopeful sign that the Non-Payment Movements according to their own information have only managed to organize about 20,000 clients out of the more than 500,000 clients in total. Success with the development of transformative microfinance, coupled to economic and social democratization and articulated with complementary services, could turn the balance even more against old-style political control in the future. Today, those MFIs who chose for such a strategy may however find themselves between the Scylla of finance as a business without much concern for development or the Charybdis of political, clientelistic state-led finance mostly favoring the interests of the old and new entrepreneurial elites. From this perspective, it is not impossible that Nicaragua ends up with a peaceful co-existence between these two forms of state and private commercial banking. The question will be how much space the poor in rural Nicaragua will have for innovative pathways towards a more inclusive development.

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