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Last January in northern Nicaragua, as a crowd of hundreds **blockaded the Panamerican Highway** late into the cool Monday night—soaking tires in gasoline before setting them on fire, hurling rocks at police and TV cameramen, bringing traffic to a standstill for 10 miles—the words once again began appearing in news reports and political speeches and inside the National Assembly debate halls: *No Pago, No Pago!*

In the months that followed, the refrain was hardly absent from the airwaves—not on **May 12, when a group of 20 people smashed the windows of a truck** belonging to a local microfinance organization, or in **early September, when some loan officers were so harassed** by protesters barricading their office doors and badgering the clients who attempted to enter that they decided to stop showing up to work altogether.

These incidents are only a few examples of the bad feeling that microfinance institutions (MFIs) have inspired among a section of the rural population in north and central Nicaragua. Confronted by the bold protests of the Movimiento de Productores, Comerciantes y Microempresarios de Nueva Segovia, or more colloquially as the No Pago (I Won't Pay) movement, politicians are growing increasingly nervous that the group's protests are scaring away international investors and could strike a heavy blow against the country's shaky economy.

The first signs of unrest appeared more than a year ago, following remarks made by President Daniel Ortega at a political rally in the northwestern province of Jalapa. The region was simmering with tension after a large microfinance corporation had **six debtors arrested**. Their families chose to barricade the highways for 11 days in protest.

"We need to end this policy of usury," **Ortega told a crowd on July 12. "Instead of protesting on the streets, protest before the offices of usurers and plant yourselves before them. Stand firm, for we support you!"**

Ten days later, borrowers behind in their loan payments tried to burn down a microfinance office in the department of Nueva Segovia. Some time afterward, debtors stormed another MFI and refused to let personnel leave the building; the resulting showdown with police left one civilian **blinded from a rubber bullet**.

The No Pago movement, which has been estimated by the media to consist of somewhere around **10,000 members**, has largely been fueled by complaints that MFIs charge interest rates that are too high, leaving borrowers swamped in unmanageable debt. Nicaragua **has the greatest number of MFIs in Central America**, with an estimated 450,000 clients and an approximate \$400 million portfolio. Clients in the economy's informal sector typically take out small loans in order, for example, to buy an oven to make and sell corn goodies known as *rosquillas* or start up a fruit-vending stand or purchase some cows and pigs. The 19 institutions that make up **ASOMIF**, a national microfinance association that has borne the brunt of the movement's wrath charge, on average, between 10% and 12% annual interest. The **Fondo de Desarrollo Local**, the largest microfinance institution belonging to ASOMIF, **handles 75,000 clients** and charges an 18% interest rate. Omar Vilchez, the former Sandinista mayor of Jalapa and the big-bellied, big-voiced de facto leader of No Pago, has demanded that the maximum interest rate be lowered to 8%, a number that government officials have called unthinkable.

This grievance against MFI interest rates is not unique to Nicaragua. The international microfinance industry is often buffeted by criticism that its interest rates are so high that micro-loans often end up causing more harm than good for poor entrepreneurs. While many MFIs in Latin America say that high interest rates are needed to cover operating costs, trouble arises when too many MFIs lend to clients already juggling multiple loans.

Problems associated with over-lending, for example, sparked **hunger strikes and protests in Bolivia** against banks and MFIs during 1999 and 2000. In Nicaragua, overzealous lending has led to cases like that of Amalia Rosales Mendoza, **who almost lost her \$7,000 home** due to three defaulted loans from different creditors, or a borrower in Jalapa **whose total debts amounted to \$600,000**, or a kite maker **who ended up owing money to all 19 MFIs** that make up ASOMIF. Agonizingly high debts are all too common in the north; according to one estimate, **about 4,500 small-scale producers in the Rio Blanco municipality** alone are burdened with debts of more than \$50,000.

ASOMIF says that when the indebted choose to rally behind the No Pago banner, they are essentially shooting themselves in the foot. According to the national microfinance association, **\$20 million in loans has been frozen** in seven municipalities due to aggressive protests, leaving thousands stranded without access to credit to keep their small businesses running. Another \$100 million in **foreign investment from 25 international microfinance partners**, including those based in the United States, Switzerland and Costa Rica, have also been stalled, ASOMIF has reported. Despite ASOMIF's staunch opposition, the No Pago movement has lobbied most forcefully for the passage of a debt relief law that would fix the maximum chargeable interest rate at 12%. On October 1, **protesters scored a major victory** when legislators signed a bill supporting the passing of such a law. The proposal would give debtors an interest-free, six-month grace period and up to four to five years to fully repay their loans.

The microfinance sector has argued passionately that a fixed interest rate and extended grace period would spell disaster for MFIs and wouldn't even come close to covering the high operating costs—paperwork, accounting, travel expenses and so on—that comes from dealing with tens of thousands of clients **each handling an average loan of \$140**. "All a debt relief law would do is postpone the problem until later without actually solving anything," **one politician, Wálmaro Guitierrez, has complained**, while Wilfredo Navarro, **another elected official, has described such legislation as "dangerous."** In contrast, as recently as September 24, No Pago leader Omar Vilchez **has called for the grace period to be extended** to at least ten years.

Complicating matters is the widespread suspicion among No Pago opponents that the real intention behind the movement is to drive MFIs out of business, forcing poor farmers to seek credit through **Alba-Caruna, a credit union created by Ortega's government** that is partly responsible for handling **aid money from Venezuela**. In one strange twist of events, **a letter supposedly signed by Omar Vilchez was unearthed last January**, in which he promised unwavering support for Ortega's political initiatives in exchange for dismantling the microfinance industry.

"It is necessary to combat the financial system privatized in 1990, to stop depending on MFIs and banks, so that all can work with the people's bank, with Alba Caruna, which gives us fair interests rather than usurious ones," the **letter states**.

Vilchez has vehemently denied that he ever wrote such a letter, even **offering to have his handwriting examined** by the police so as to prove that his signature was forged. The leaders of the No Pago movement have repeatedly rejected the accusation that they are working in cahoots with Ortega's government, asserting that they are independently funded and politically autonomous.

Ortega, despite **having fanned the flames that sparked the unrest** in the first place, has made efforts to distance himself from No Pago adherents. "These methods of protesting aren't necessarily the best," **he mused in February**. He

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has also decried the "national culture of no pago" that he said the movement was supporting. However, critics pounced when the president's office released an **annual report** in January, and the No Pago movement was listed as an example of the **g**
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"If Nicaragua's micro-credit disappeared," **the executive secretary of ASOMIF has warned**, "the economy's informal sector would be paralyzed." Whether the passage of a debt-relief law would ever become a political reality in Nicaragua remains to be seen, but until then, the No Pago frenzy has raised tough questions for the microfinance world. Vilchez and his followers say they seek justice; **ASOMIF accuses them** of "really being a movement about not paying off your debts." Like so much in Nicaragua, neither claim succeeds in fully capturing the ambiguous truth.

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