The Efficacy of Microfinance at the Sectoral Level: Urban Pulperías in Matagalpa, Nicaragua

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Abstract
In this paper we address the impact, viability, and efficacy of microfinance on pulperías (in-home convenience stores), a sector that comprises up to one-third of the microfinance loan market in Central America, in a single research locale. Numerous and extensive in-person surveying (N=279) provides a rich dataset. The results suggest that pulperías that receive no microfinance support (or outside support of any kind) perform better with regards to income and are not statistically different from their MFI-supported counterparts with regards to household well-being. Perhaps the greatest achievement of microfinance for the pulperías in our study is the movement away from itinerant and unstable unskilled wage earnings to a more stable and higher end income stream connected with pulpería ownership.

Keywords
microfinance, Pulperías, Latin America, Nicaragua

1. Introduction
Lending to microenterprises at the bottom of the pyramid (Prahalad 2005) is no longer an anomaly. Within a generation of the start of the Grameen Bank (Bornstein, 1997), microfinance today is promoted not only as a tool for poverty reduction (De Soto 2000; Lashley 2004; Ortiz 2001), but also as a means to economic dynamism for commercial banks and microfinance institutions (Ledgerwood 1999), microenterprises (Pisani and Yoskowitz 2004) and national economies (Pisani and Patrick 2002). The United Nations, the World Bank, regional development banks and philanthropists have all jumped on the microfinance bandwagon. In November 2005, Pierre Omidyar, the multibillionaire founder of E-Bay, endowed Tufts University with $100 million to inject fresh capital into microfinance institutions and extend the reach and
impact of microcredit. In essence, microfinance has entered into the mainstream development dialog and is increasingly touted as a tool for fighting poverty and hopelessness (Smith and Thurman 2007).

The primary impetus for the creation of microfinance institutions (MFIs) was to alleviate poverty in the developing world (Bornstein 1997). The United Nations Millennium Development Goals parallel this line of thought, which call for the eradication of extreme poverty and hunger within this generation. But does microfinance actually achieve this goal of poverty eradication? Are MFIs sustainable? The current literature reports mixed findings and are far from definitive. Our present study seeks to shed light on one of the largest segments of the microfinance industry in Latin America—the in-home convenience store or *pulpería*. Specifically, we seek to address the impact, viability and efficacy of microfinance on *pulperías*, a sector that comprises up to one-third of the microfinance loan market in Central America, in a single research locale.

The research site is Matagalpa, Nicaragua, the second largest municipality in the country where we undertook a survey of 279 urban *pulperías*.¹ Our investigation focuses on how microfinance funding assisted those who accessed it. Here we are primarily concerned with the business enterprise (the *pulpería*), the microentrepreneur (the *pulperista*), and the household of the business endeavor. In essence, we seek to better understand if microfinance makes a difference in the lives of those it has touched within a specific business sector at the bottom of the pyramid.

The remainder of the paper is organized as follows: section two reports on the relevant literature; section three highlights and provides context for our research location (Matagalpa, Nicaragua); section four details the methodology employed; section five reports our results; section six describes the impact of microfinance with reference to qualitative interviews of *pulperistas*, and offers a discussion of the findings; and the last section concludes the paper.

2. Literature Review

The reported impact of microcredit in the developing world is mixed. Analyses of MFIs tend to focus on institutional sustainability, such as repayment rates (including arrears), portfolio growth, and market reach. Microfinance institutions (MFIs) are financial intermediaries focused at the bottom of the pyramid

¹ The term *pulpería* is specific to Nicaragua; other countries in the region use the Spanish expression *tienda* or *tiendita* to describe like in-home convenience stores. The terms are synonymous.