

MICROCREDIT, CONFLICT, AND COOPERATION: TWO CASES OF  
ASSOCIATIONAL ENGAGEMENT IN WESTERN NICARAGUA

by

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“Microcredit, Conflict, and Cooperation: Two Cases of Associational Engagement in Western Nicaragua,” a thesis prepared by Elias R. Meyer in partial fulfillment of the requirements for the Master of Arts degree in the Department of International Studies.

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exclusionary risk exacerbating pre-existing social divisions based on cultural and political identity.

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**CHAPTER I**  
**INTRODUCTION: POLITICAL CONFLICT, IDENTITY, AND**  
**MICROCREDIT**

**Statement of the problem**

During the Nicaraguan municipal elections in November 2008, violence broke out in many rural communities as well as in the *barrios* of Managua. As the political map changes throughout the countryside, existing partisan tensions among the population can escalate, leading to horrible acts of violence.<sup>1</sup> Community violence in this context includes rioting, stone-throwing, vehicle-burning, and machete attacks. Political party affiliation as an identity marker becomes a real source of conflict between individuals and families. This type of conflict is not unique to Nicaragua; there are countless examples throughout Latin America and beyond.

Much has been written on conflict, cooperation, and identity across disciplines and in myriad communities around the world. Associational engagement, or the interaction of community members within clubs, civic groups, or community associations, has been examined in many contexts. When dealing with violent conflict, whether in Rwanda, Palestine, or Colombia, community members have found varying levels of peace-building success by engaging in activities that build civic bridges

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<sup>1</sup> Daniel Ortega and the FSLN (Frente Sandinista de Liberacion Nacional) won the presidency in 2006 after 16 years of neoliberal rule. Also, in 2008, the FSLN defeated the PLC (Partido Liberal Constitucionalista) in many municipal elections, gaining a large mayoral majority.

between two contesting cultural identity groups. This thesis will look at similar activities, namely microcredit groups, within the Nicaraguan context.

Why focus on microcredit versus other forms of community associations? First, microcredit is now being utilized extensively in the developing world as a popular form of community development. Since the well-documented success of the Grameen Bank in Bangladesh, large development organizations such as USAID, the World Bank, and the United Nations Development Program have strongly supported microcredit as a new paradigm in market-based local empowerment. The more microcredit becomes prevalent, especially in communities where tensions exist between political, ethnic, or religious groups, the more influential microcredit groups become in affecting community social dynamics.

Also, this thesis focuses on microcredit groups because of their unique characteristic as community associations that strive to build *financial forms of capital* as their main goal. This contrasts with common types of community associations that focus on other forms of capital. For example, literary groups focus on building social and intellectual capital, youth groups focus on educational and social capital, and political parties focus on building political capital. Microcredit groups, by definition, attempt to build financial capital within their constituencies. Therefore, this thesis is interested in how this distinct form of building community capital, combined with its ubiquity and rapid growth, affects cooperative dynamics within communities.

### **Key questions and arguments**

Oftentimes in microcredit schemes social pressure from the community is employed to urge repayment of loans, which in turn facilitates loans for other members within the same community. This form of collateral is known as a mutual responsibility system within microcredit parlance. These systems link the success of microcredit schemes to a cohesive sense of community identity and high levels of pre-existing social capital. If microcredit success relies on community identity, conversely, does the formation of a microcredit group affect the (re)construction of community identity? Building on empirical research showing how intergroup or *bridging* associational engagement can build cooperation in communities with competing cultural identity groups, this thesis will examine two cases of microcredit in western Nicaragua to explore the relationship between microcredit and cooperation. In this context, the competing cultural identity groups are political parties and party affiliation becomes not only a position of ideology or interest, but also an important cultural identity marker. Specifically, the research will address the following questions:

- Can the formation of microcredit groups play a significant role in bridging cultural identity groups?
- To what extent do microcredit groups contribute to or detract from the social capital of a community?
- Ultimately, do microcredit groups act as forms of associational engagement that bridge partisan differences in the Nicaraguan context?

The findings of the two case studies indicate that microcredit can serve to bridge competing cultural identity groups and build cooperation. The correlation between

higher levels of partisan cooperation and specific structural aspects of the microcredit group in the second case study of Ococona is corroborated by data gathered by in-depth interviews with community members. The first case study of Sabana Grande reverses this correlation and supports claims about how the specific nature of microcredit can serve to further exacerbate community divisions based on power and identity.

Correlation does not equal causation, nor does this thesis attempt to prove causation. Rather, the compelling results serve to underscore key implications about the larger issue of how microcredit may play a significant role in affecting community cooperation. The results of the comparison between the two cases show that three distinct considerations must be taken into account when considering microcredit structure. First, bridging relationships (relationships between competing cultural identity groups) based on increasing levels of social capital create more cooperative dynamics than bridging relationships based on financial capital. Therefore, microcredit groups that can *build social capital as well as financial capital* can contribute more effectively to levels of cooperation. Indeed, the results of the case studies indicate that microcredit groups that focus solely on building financial capital, when mapped onto communities with pre-existing partisan tensions, risk politicizing microcredit benefits and further dividing communities. Second, microcredit groups that decrease barriers to entry as well as allow for maximum community agency may also reduce politicization of microcredit benefits. As the Ococona case study shows, community members feel that they have more ownership and control over microcredit policy and outcomes because they are not beholden to outsiders. Finally, microcredit groups that remain

open to local forms of knowledge as well as accommodate rapidly changing community environments increase propensity for intergroup cooperation. These implications fall in line with many claims about the benefits of bottom-up forms of community development.

Ultimately, this research serves to remind readers of the complexity of community and the importance of endogenous agency in building cooperation as well as development. The results should also serve as a warning. Despite the good intentions of development planners to improve economic conditions by providing communities a vehicle to accumulate capital, microcredit proponents need to understand the risks of unforeseen consequences. The case study of Sabana Grande shows perceptions of partisan exclusion and mistrust even though many of the microcredit policies are similar to those in Ococona. If microcredit schemes remain rigid and inflexible to the needs of complex communities, especially communities dealing with intergroup conflict, intended benefits from development can become politicized and cause further divisiveness.

### **Thesis structure**

This thesis consists of seven chapters. Chapter two discusses current theoretical debates that frame the research and analysis. Themes include the social construction of identity, associational engagement, forms of community capital, and the complexity of community. Chapter three provides a brief history of identity and partisan conflict in the Nicaraguan context. It is important for this analysis to view political party affiliation not only as a position of political interest but also as a marker of personal

identity and cultural identity group affiliation. Then I give a brief overview of methods used in examining the two case studies of Sabana Grande and Ococona. Chapters five and six provide the empirical findings for the thesis and chapter seven develops a comparative analysis of the cases studies. The analysis and discussion at the end will revisit the research questions of this thesis and provide concluding remarks.

## **CHAPTER II**

### **THEORETICAL FRAMEWORK: IDENTITY, ASSOCIATIONAL ENGAGEMENT, AND COMMUNITY**

In order to better assess the social impacts of microcredit in Nicaragua this chapter will establish a theoretical framework from which to begin. Because the actors in this study have complex relationships with their social environs, it is necessary to discuss the complex nature of identity, community, and civic participation. This chapter presents literature on current debates regarding identity construction, civic engagement, and social capital as a theoretical point of departure. I will return to these key themes when analyzing the two case studies in the conclusion.

#### **Identity as socially constructed**

The analysis of community dynamics in this theses starts from the theoretical standpoint that identity is socially constructed. In other words, although identity markers such as race and ethnicity are loaded with cultural, social, and political meaning they are not genetically essential. Moving away from such primordial thinking on identity, contemporary theories of cultural identity formation discuss complex mixtures of historical social forces and individual agency. One such social force influencing identity is nationalism. Benedict Anderson's (1983) classic work on nationalism illustrates, through a complex historical analysis, how the people of the

West, through the processes of colonialism and capitalism, moved from dynastic allegiances to citizenship in an “imagined community” or nation. Now, nationality, as a cultural identity marker has become universal and normalized. It is hard to imagine a person without a nationality.

Structural forces such as nationalism both influence and are influenced by contested narratives from a bottom-up perspective. In her work on ethnic identity construction, Nagel (1994) shows that cultural identity is constructed between cultural groups, in relation to larger social structures, and from the choices of individuals. Ethnic groups solve questions of history, membership, and culture through the construction process. ‘Tradition’ has been stripped of its primordial definition as well. Hobsbawm’s (1983) classic work of essays shows, through various cases, that ‘tradition’ is constructed to instill particular values and norms of behavior that are popularly perceived as historically grounded and essential.

The constructivist nature of identity can best be seen among people who have life histories that span differing cultures. The life narratives of people who identify as non-Western and multicultural attach differing levels of meaning to identity, depending on the context (Sparrow, 2000). For example, a person who was born in one country but has lived a significant time in another country can identify as a national of either country or a member of a diasporic community, depending on personal circumstances. Furthermore, research shows that attachment to a cultural community in a multicultural context creates meaning and perspective that allows for better understanding of multiple cultural realities situated in the wider world (2000).

The structural influence of hegemony also plays a significant role in identity construction. In his investigation into the political culture of the Yoruba of Nigeria, Laitin (1986) links the importance of hometown affiliation over religion to the history of colonialism and the nature of indirect rule, as a *hegemonic* force. Hegemony constructs culture and builds “webs of significance” that are often unknown to the culture’s constituents. Another example of hegemony at work can be found in linguistic change. Globalization and English are deeply intertwined as a worldwide cultural hegemon (Tsuda, 1999). “The dominance of English operates as a means of promoting globalization... Globalization, in turn, assumes and encourages the use and dominance of English” (1999). In other words, through globalization and the embedded hierarchies of power, English represents an imperial cultural force that leaves no culture untouched by Americanization and McDonaldization.

Notions of structure and identity come from other strands of cultural critique as well. In Wallerstein’s (1987) world systems theory, the construction of race maps onto the creation of exploitable labor and the core-periphery dichotomy during early capitalist development. Race, as a social category, is only possible through the existence of the capitalist world economy. Memory also plays a vital role in cultural engineering (Cochran, 2002). Politicians, leaders, and elite groups selectively utilize cultural memory as an agent of control while subaltern groups use memory to keep oppressed identities alive.

Cultural identity is also constructed from below, demonstrating individual and community agency. Conzen (1992) looks at immigrant culture in America and

stipulates that a contested view of identity construction between “foreigners” and American culture more accurately reflects the invention of immigrant ethnicity. Minority groups in the US reflect agency by adapting identity through opposition to hegemony. In other words, identity is not solely created by outside forces, nor do subjects freely choose their own identity. Identity is more accurately defined relationally from a complex array of dialectics such as inside-outside, disadvantage-privilege, and similarities-differences (Conzen, 1992; Martin & Nakayama, 1999).

It is with this complexity in mind that I will examine the social dynamics between microcredit groups and community cooperation in Nicaragua. Chapter three charts the historical development of political identity in everyday life in western Nicaragua. Political identity in this context is cultural in that people identify themselves as Sandinista or Liberal based not only on political ideology or interest politics but also on the complex array of factors discussed above in this section. Before looking at these historical factors the next section examines literature on the role of associations in civic life.

### **Civil society and associational engagement**

Although microcredit groups can be established through government programs, this thesis looks at groups that arise and engage the community as components of civil society. Civil society has become an important part of how communities successfully negotiate social, political, and economic forces. This review will use Catherine Barnes’ (2005) working definition of civil society as “the web of social relations that exist in the space between the state, the market (activities with the aim of extracting profit), and the

private life of families and individuals.” Civil society is comprised of formal and informal institutions, associations, and community groups. Associations may include churches, interest groups, social clubs, business associations, trade unions, and NGOs. The recent growth in civil society can be seen as a reaction to globalization and the retreat of the state within liberal democracies (Bowden, 2006). Indeed, civil society is even seen as essential for the effective functioning of democracy (2006).

How does civil society mediate conflict between groups? According to Barnes (2005), civil society opens a space for cultivating cooperative values in the public sphere through the mediation of power between different groups. She distinguishes civil society relationships from patron-client relationships, often endemic in state structures. The success of civil society organizations to prevent conflict and build cooperation depends on many external and internal factors (McKeon, 2005). Factors include communal attitudes (degree of sectarianism), amount of political space open to civil society, community history, and resources available.

The analysis of case studies in this thesis will employ the theoretical framework of associational or civil society engagement. Civil society associations that network across ethnic, religious, or partisan lines build bridges that reduce the probability of violence in times of conflict. Varshney (2002) examines intergroup associational engagement, or civic groups and networks that bring different cultural groups together, as a means of preventing violent conflict between Muslims and Hindus in urban areas of India. By comparing communities that are demographically similar but have differing historical levels of ethnic violence, his study concludes that *intergroup* associational

engagement is more successful than *intragroup* associational engagement in reducing the probability of violence between Muslims and Hindus. Also, Varshney posits that associational engagement is more effective than everyday civic engagement (relationships built through individual or family interactions within a community) as population increases. Although day-to-day interactions between Muslims and Hindus help to prevent violent conflict in small communities, intergroup connections become more resistant to sectarian violence through civic associations in more populous urban areas. Varshney's study positions intergroup associations as historically constructed from the ideology of Mahatma Gandhi and Indian independence. In comparative terms, Varshney poses the question, "Can movements smaller than India's independence movement forge intercommunal civic networks where associations and everyday life have continued to be highly segregated?" (Varshney, 2002, p. 290). This thesis will use Varshney's inquiry as its point of departure for exploring the role of microcredit groups in Nicaraguan community dynamics.

Examples of successful associational engagement in building community cooperation are abundant. In Montana and South Dakota, Native Americans and white ranchers, two groups historically in conflict, have formed alliances based on a common interest: protecting the local environment from outside threats (Grossman, 2003). In this example cross-racial alliances both reinforce differences and build bridges between groups, resulting in stronger cooperation among all stakeholders in the community. Lazaro (2009) reports on another poignant example of associational engagement between Muslims and Christians in Nigeria. A small church is creating a new worship

community of tolerance by blending the two faiths into “Chrislam.” On spiritual engagement, Johnston (2005) states, “Accepting the fact that religion is both powerful and persuasive, it becomes important to look beyond the secular approaches to conflict prevention or resolution and examine the potential of faith-based interventions.” These examples demonstrate that associational engagement can represent a powerful mechanism within civil society to facilitate intergroup cooperation.

### **The role of social capital**

Theorists and development practitioners have developed and utilized theories of community capital to understand the sociology of communities. Community capital in this sense can be considered accumulated forms of resources that the community can employ for their own development. Bourdieu (1991) divides capital into cultural, economic (financial), functional, linguistic, political, social, and symbolic. As mentioned in the introduction to this thesis, microcredit deals with financial and social capital. The extent to which civil society fosters cooperation can be examined through the metric of social capital. According to Robert Putnam (2000, p. 19), “social capital refers to connections among individuals-social networks and the norms of reciprocity and trustworthiness that arise from them.” Social capital is used to explain the erosion of community bonds in the United States over the last two decades (2000). Putnam measures social capital by examining data on participation trends in various sectors of society as well as opinion polls that attempt to capture public perceptions of community trust.

DeFilippis (2001) puts forth a legitimate critique of Putnam's version of social capital. When discussing development, social capital cannot be separated from other forms of capital and larger structural considerations of power. Specifically, DeFilippis has a problem with how Putnam removes social capital from considering economic capital and that community development has to account for material considerations. I find Putnam's theory of social capital and community trust useful for two reasons. First, because the research is more focused on community cooperation than material development, social capital becomes the most viable form of community capital to examine. However, this research will also move towards a more complicated, holistic understanding of community dynamics which will take into account other forms of community capital and historical power relations. Second, the nature of microcredit as an explicit mechanism for building financial capital automatically forces us to consider other forms of community capital and how they interact with the cooperative nature of social capital. Therefore, to the extent possible I will keep DeFilippis' critique in mind when assessing social capital.

The literature on social capital suggests that associational engagement plays a significant role in fostering community bonds. Putnam's study of American civic participation divides social capital into two types: bonding versus bridging. Bonding social capital builds networks within the same identity group, which, according to Putnam, provides more opportunities for in-group members to build outside antagonisms. Conversely, bridging social capital builds social networks across cultural identity lines, which can help to mend social cleavages (Putnam 2000). Interestingly,

Putnam's two social capitals maps onto Varshney's discussion of associational engagement in India. Intergroup associations foster bridging social capital, while intragroup associations focus on building bonding social capital. Andrews' (2009) study provides further evidence of a positive correlation between intergroup associational engagement and social capital in heterogeneous communities in England.

Researchers have also looked at the precise mechanisms at work in fostering social capital. Pickering's (2006) work calls for the use of social network theory in evaluating social capital that bridges ethnic divisions. Specifically, social capital can best be measured by accounting for "embedded resources" that are rooted in social interactions (Lin, 2001). Additionally, social network theory calls for associations that diversify membership among cultural groups that do not self-select and that promote continuous interaction between groups (Mondak and Mutz, 2001; Seligman, 1997). Associations that are based on rules of social networking are found to more successfully build trust between cultural groups.

Microcredit groups represent unique types of associations that focus on building financial capital within their constituencies. Although loan-taking is an individual activity, a microcredit group concentrates capital accumulation into a solidarity group, usually from the same community. The effects of this concentration equate to an overall infusion of financial capital into the community through investment in entrepreneurial activities. In this way microcredit groups are associations that strive to build financial forms of capital within communities. Of course these characteristics do

not apply to all microcredit groups but represent a viable framework from which to examine the case studies in this thesis.

### **The complexity of community**

It is important to highlight the complex dynamics at work within communities. Although theoretical concepts such as associational engagement and social capital help to frame narratives and lived experiences of community members, these theories should not be used rigidly to simplify complex social phenomena. James C. Scott's thorough study of state planning initiatives shows how futile reductionist thinking about communities can be (Scott, 1999). According to Scott,

Diversity and certain forms of complexity, apart from their attractiveness, have other advantages...As long as the task environment of an institution remains repetitive, stable, and predictable, a set of fixed routines may prove exceptionally efficient. In most economies and in human affairs generally, this is seldom the case, and such routines are likely to be counterproductive once the environment changes appreciably. The long-term survival of certain human institutions-the family, the small community, the small farm, the family firm in certain businesses-is something of a tribute to their adaptability under radically changing circumstances. (p. 353-354)

Although Scott discusses the complexity of economies, institutions, and human affairs generally, his call for adaptability under radically changing circumstances of these institutions can be applied to communities. For Scott, a dynamic community in a rapidly changing environment requires associations and institutions that can adapt in a commensurate fashion. Also Scott discusses the pairing of association with purpose:

An institution, social form, or enterprise that takes much of its shape from the evolving *métis* of the people engaged in it will thereby enhance their range of experience and skills... Where that [human] purpose is narrow, simple, and invariable over time, it may well be that codified, hierarchical routines are

adequate and possibly the most efficient in the short run... Whenever, on the contrary, the quality of the institution and its product depends on engaging the enthusiastic participation of its people, then such a litmus test makes sense. (p. 356)

Métis in this context is local forms of knowledge that have been developed through the complex historical experience of the community. Although some may assume that the purpose of a microcredit group is narrow, simple, and invariable over time, the research presented in this thesis will complicate this assumption.

It is necessary to keep these complex views of identity, associational engagement, and community in mind when examining the interactions between microcredit groups and the larger community. The next chapter will briefly outline relevant historical developments in Nicaragua in order to better contextualize the issues of politics and identity endemic in the following case studies.

**CHAPTER III**  
**BACKGROUND: POLITICAL IDENTITY AND MICROCREDIT IN**  
**NICARAGUA**

This chapter contextualizes the two case studies in this thesis by examining political identity and microcredit in Nicaragua. I start with an overview of major demographic, economic, and social indicators that situate Nicaraguan society within the language of identity and social capital. Next, the chapter discusses recent electoral events in Nicaragua, highlighting the rise in everyday violence associated with partisan identity and politics. Then, I provide a background to contemporary political identity in Nicaragua by outlining major political events and social processes that have influenced forms of political participation since the Sandinista revolution of 1979. Finally, I briefly discuss the presence of microcredit in development and, specifically, its prevalence in Nicaraguan society.

**Overview of Nicaraguan society**

The purpose of this chapter is not to generalize the diverse experiences of Nicaragua's people and communities, but rather to establish a background understanding of political conflict and identity as an [don't use the collective "we" or "our"] analytical starting point, which is essential to understanding how microcredit affects cooperation. This section [I suggest using present tense. I won't fix future spots

like this]outlines the current cultural and economic situation to better situate the two case studies examined in this thesis. I will first look at general demographics, mainstream economic and development indicators, and end with a discussion of general cultural and community structures. It is important to keep in mind that Nicaraguan society is diverse and complex, with many urban-rural, ethnic, and regional distinctions. These distinctions will be highlighted in chapters four and five for the areas in which I conducted research.

With the largest total land area in Central America, Nicaragua has a population of approximately 5.9 million people, making it the most sparsely populated country in the region (CIA, 2009). Nicaragua, like many other countries in Latin America, describes itself as a *mestizo* nation. ‘Mestizo’ is a problematic term referring to racial and cultural mixing of indigenous peoples and Europeans.<sup>2</sup> The people of western Nicaragua are generally described as mestizo, while the Atlantic coast regions boast significant populations of Miskito and other indigenous groups, as well as Afro-descendant Creole communities. Ethnically, 69 percent of Nicaragua’s population identifies as mestizo, 17 percent white, 9 percent black, and 5 percent identify as indigenous (2009).

In order to better highlight the importance of microcredit as a form of community life, this analysis must illustrate why such development schemes are popular. According to large development agencies, poor economic figures,

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<sup>2</sup> For more information on current debates on mestizo identity in Latin America, read Alonso (2004), De La Cadena (2005), and Wade (2005).

environmental issues, and high urbanization rates plague Nicaraguan society.<sup>3</sup> Currently, the country has the second lowest per capita income in the Western Hemisphere, with 15 percent of GDP made up in remittance payments (CIA, 2009). [right but you need to contextualize this as Escobar problematizes poverty. These are the sort of stats that justify mainstream development] The most serious environmental issues include deforestation, soil erosion, and water pollution. Fifty-seven percent of Nicaragua's people reside in urban areas, which are growing at a 1.8 percent urbanization rate (2009). In the context of these social, economic, and environmental challenges, Nicaraguans find diverse ways to construct livelihoods within dynamic communities and cultural structures.

In most Nicaraguan communities, the family represents the most basic and essential unit of a community's social fabric. In rural areas (like the areas examined in this thesis), families are often large. Beyond the nuclear family, people in rural communities closely relate with aunts, uncles, cousins, and surrogate kin (term citation?). By surrogate kin I refer to close family friends who act as kin, which includes godparents, godchildren, co-mothers, co-fathers, close friends who have earned the status of cousin and so on. In many ways, these familial networks also provide avenues to jobs, development aid, and forms of community status that become crucial in creating livelihoods. Although these kinship bonds are fundamental for community cohesion and can be quite strong, they have also been broken by forces such as economic hardship, land disputes, political differences, and war.

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<sup>3</sup> For more on the historicity of poverty in Nicaragua and the Global South, see Escobar (1995) and Rist (2009).

Social capital in Nicaragua can be hard to measure. Participation and trust factors have to be considered in the context of Nicaragua's many divisions. Of course, the main division explored in this thesis is political partisanship; however, a long history of poor governance, economic inequality, and religious divisions (mainly between Catholic and evangelical Protestants) has created complexities in the structure of Nicaraguan social capital. Like other societies, Nicaraguans rely heavily on civic engagement to build networks of community trust in the face of these divisions. Andrew Mitchell and Thomas Bossert (2006) surveyed elements of civic engagement in six Nicaraguan communities. They found that 62 percent of households surveyed reported being involved in at least one civic organization. Nine percent of those were involved in "Credit groups," second only to "Religious groups" (39 percent pick one rule about whether to spell out numbers & stick with it) in popularity. Other categories included NGOs, political groups, and agricultural groups. This thesis will mainly investigate participation in credit groups and how this participation affects social capital and partisan identity. Before further examining partisan identity and microcredit, the next section will briefly outline recent political events in Nicaragua.

### **Recent events in Nicaragua**

The two major political parties that dominate national and municipal politics in Nicaragua are the Liberal Constitutional Party (Partido Liberal Constitucionalista, PLC) and the Sandinista National Liberation Front (Frente Sandinista de Liberacion Nacional, FSLN). The FSLN led a popular revolution that ousted the long time dictator Anastasio Somoza in 1979, leading to a decade of Sandinista rule. In 1991, Daniel Ortega was

voted out of office and the popular conservative candidate, Violeta Chamorro, was voted in. This electoral change ushered in 15 years of PLC-dominated politics, backed by US resources. During this time, Sandinistas built strong grassroots networks and held many municipal offices. Daniel Ortega was re-elected to the presidency in 2006 and the Sandinistas made huge gains in the municipal elections of 2008. The PLC still identifies itself as the pro-American party while the Sandinistas identify themselves as the anti-imperialism platform, making positionality in relation to America a dominant discursive compass in political identity formation. The effects of this cleavage can be quite severe, as seen by recent acts of violence during the municipal elections.

In November of 2008 Nicaragua suffered increasing violence due to the strong Sandinista mayoral wins in many municipalities (Schmidt, 2008 and Lacey, 2008). According to Amnesty International, “Hundreds of supporters from [both major political parties] clashed in Managua on 18 November. They used sticks, stones, home-made mortars, guns and machetes. Many people were wounded but no official figures are available” (Amnesty International, 2008). In the region in which I conducted research many people told me informally that they were surprised over the uncharacteristic outbreak of violent acts that occurred leading up to the municipal elections. I will give official statistics of violence for each community in the case study chapters. The next section will examine historical forces that drive contemporary partisanship in Nicaragua.

### **Political identity in Nicaragua**

When examining the relationship between associational engagement and cooperation, this thesis mainly examines community divisions based on political affiliation. This section charts the historical development of partisanship as something more than simply a position of rational political choice, but rather as a salient identity marker in everyday Nicaraguan life. Although splinter groups do exist in national and municipal politics, most Nicaraguans associate themselves politically with the PLC or the FSLN. Constituents of the PLC call themselves Liberals and those of the FSLN call themselves Sandinistas. This section will contextualize the polarization endemic in the PLC-FSLN dichotomy by looking at major political and social developments in Nicaragua since the Sandinista revolution in 1979. It is important to note that identity construction is a heterogeneous, complex and ongoing process that cannot easily be generalized. Looking at big-picture hegemonic processes, however, can be useful in framing history in a way that builds a foundation from which to examine locally distinct experiences in partisan culture.

In 1958, Carlos Fonseca, a Nicaraguan student dissident influenced by the works of Marx and Engels, Faulkner, and Dostoyevsky, wrote an influential journalistic account of his travels, titled *Un Nicaraguense en Moscu*. After being wrongly imprisoned by Nicaraguan president Luis Somoza in 1956 and traveling to the Soviet Union and East Germany in 1957, Fonseca found new energy as a political activist against the repressive Nicaraguan dictatorship. In 1961, Fonseca and a core group of revolutionaries who had been highly influenced by the Cuban revolution founded the

FSLN with the sole purpose of overthrowing the Somoza dynasty and implementing reforms that would lead to a more just society. This historical moment marks the official beginning of *Sandinismo*, named after the famous Nicaraguan anti-imperialist Augusto Sandino, as a rising national ideology of social change in Nicaragua. In 1979, the FSLN led a successful popular revolution to oust the long-time Somoza dictatorship and establish a new national framework based on this new ideology of anti-imperialism and social justice.

Although leftist political parties existed in Nicaraguan politics before the rise of the FSLN, the traditional Liberal-Conservative dichotomy reigned in political discourse. Following independence, in the mid-19<sup>th</sup> century, Nicaraguan society found itself deeply divided between the interests of Liberal elites in Leon and Conservative elites in Granada. The history of this partisan polarization, the details of which will not be discussed within the scope of this thesis, is common throughout Central America, stemming from the struggle for independence and the initial establishment of the United Provinces of Central America (Herring, 1968). Independence of Central America opened long-lasting political divisions between conservative supporters of the Spanish crown and liberal supporters of the creole nationalists.

The 1979 revolution caused a rupture in Liberal-Conservative dichotomy by removing the long-standing dictator, Somoza, from power and fundamentally changing political discourse. The new political space created by the FSLN would present an identity vacuum in which Nicaraguans would have the opportunity to establish new rules of political participation, national identity, and social structure. However, this

political space would also present an opening for the influence of other powerful forces in recreating partisan identities.

The complexities inherent in building a revolutionary movement necessarily create contradictions and forms of resistance. The building of the hegemonic discourse on revolution in Nicaragua starts of course with the Cuban revolution. Zimmerman (2000) concisely links Carlos Fonseca's ideological development with the Cuban revolution. She states:

In less than two years, Fonseca went from being a campus activist who read books about Marxism to being a practitioner of revolutionary war. The impetus for this sea change in Fonseca's approach was the Cuban revolution, starting with the guerrilla war of 1958. The victory of the July 26 Movement, more than anything else, convinced him that something more radical than the PSN's perspective of electoral blocs and labor organizing was possible in his own country. (p. 61)

Fonseca's change in ideology toward a model of guerrilla revolution marks the beginning of a long process in which everyday Nicaraguans came to define themselves and their political struggles in terms of revolutionary aims.

As soon as Fonseca linked revolutionary struggle to citizenship, the foundation was set for an emergent hegemony of revolution in popular imaginings of the nation. In Zimmerman's analysis of *Viva Sandino*, she writes, "Fonseca believed that Sandino's struggle-along with the tradition of resistance to Spanish colonialism-had given birth to the sovereign Nicaraguan nation, and that only those who identified with this struggle had the right to call themselves Nicaraguans" (Zimmerman, 2000, p. 149). In fact, Daniel Ortega, the current president of Nicaragua, and the FSLN continue to frame

political action and threats in revolutionary terms.<sup>4</sup> In other words revolutionary ideology became an important element in reconstructing the nation and, by extension, [look up rules on use of commas & fix throughout the thesis. You have quite a few comma errors] the rules for political participation.

Although a revolutionary form of nationalism grew throughout the 1970's, not everyone supported it. Many people who opposed the Somoza dictatorship also opposed armed struggle as the appropriate course of action. Despite heterogeneous forms of opposition, I argue that the success of the FSLN in 1979 gave much more legitimacy to revolutionary nationalism, almost to the point of drowning out all other conceptions of participation. Revolution, as an important concept, can be seen in contemporary rhetoric and celebration from both the PLC and the FSLN. For example, liberal politicians now commemorate the "Liberal Revolution" that ended thirty years of Conservative rule in 1893 as a day to revisit national party strategy (Cerdeña & Uriarte, 2009). Conversely, the rhetorical usage of revolution by liberals has prompted outcries from those who have a different definition of revolution (Monterrey, 2000). Despite philosophical disagreements about the definition of revolution, political identity in both political parties attaches itself to notions of a revolutionary citizenry.

Intervention and influence by the United States also represents an important factor in contemporary political identity. The history of US intervention in Nicaragua goes back to the early days of independence. Beginning with the Monroe Doctrine, the US played an active role in the region's politics and economics as tensions with the

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<sup>4</sup> See Cerdeña "*Sapos y culebras*" en *el discurso de Ortega*.

British Atlantic coast increased. From 1910 to 1933, the US Marines occupied Nicaragua intermittently to protect US business interests. Famously, Augusto Sandino was given credit for US withdrawal in 1933 shortly before his assassination in 1934 by the newly formed US-backed National Guard. Arguably the most influential intervention was the Reagan Administration's participation in the Contra war from 1981 to 1990. However, US influence in Nicaraguan politics remained strong well after the defeat of the FSLN. In the 2006 presidential campaign, the US State Department made extensive threats, including the interruption of remittance payments to Nicaragua, should Daniel Ortega return to the presidency ("US returns to meddling in Nicaragua", 2006). Even today the front pages of Nicaraguan newspapers give substantial ink to the opinions of the United States regarding national policy. No one can deny the omnipresence of the US in Nicaragua's past and present affairs.

The concept of hegemony also plays an important role in understanding political culture in Nicaragua. David Laitin's (1986) study of Yoruba cultural identity in Nigeria provides a useful comparative tool. He linked the Yoruba's tendencies to vote based on ancestral home town affiliation over religious affiliation to a form of historical hegemony. In colonial Nigeria, the British system of indirect rule allocated power and resources to town chiefs, not religious leaders. Over time this division of power thickened the cultural importance among the Yoruba of identifying oneself with hometown (1986). The Yoruba in Laitin's study considered the importance placed on hometown affiliation as normal, not as a result of historical hegemonic processes.

Interestingly, we can find Laitin's hegemony at work in Nicaragua as well. In his article on anti-Americanism in Nicaragua, Ryan (2004, p. 116) states that animosity towards the United States is "intimately linked to the process of Americanisation, US power and the relative impotence of small states... These relationships imply that there is a combination of US economic and ideological hegemony that provokes and invites resistance." It is this resistance to hegemony, among other factors, which fueled the Sandinista revolution against the US-backed Somoza dictatorship in the late 1970s. Once the Sandinistas had overthrown Somoza and started the process of reshaping the country, the Reagan administration chose to intervene by supporting Contra soldiers to incite civil war. The bloodshed, influenced heavily by the United States, lasted throughout the 1980s, further thickening the dividing line between those who supported the Sandinistas and those who did not (Kinzer, 1991). As recent events show, memory intersects with hegemony to further polarize partisan identity. Today, Nicaraguans who support the PLC, the pro-America, anti-Sandinista political party, include many families who remember grimly having to stand in line for food rations, being forced to serve and fight in the civil war, and having their farms confiscated and transformed into state-run cooperatives. Political affiliation today can strongly be linked to the memory of the 1980s as much as ideology.

In addition to promoting ideological Americanization, the US dedicated substantial resources in the 1980's to foment anti-Sandinista political action. William Robinson (1996) charts the history of the US strategy to transform elite opposition into a critical mass of political opposition. He states, "The US plan called for mobilizing

two main bodies: a political coalition to oppose the Sandinistas, and a network of mass civic organizations, or what US strategists referred to as a ‘civic opposition front,’...” (p. 223). Furthermore, Robinson shows that by framing political aid as “democracy promotion,” the US has continued to support the anti-Sandinista coalition (PLC) since the 1990 electoral defeat of Daniel Ortega. The mass infusion of US resources, as well as its rhetorical cause of supporting democracy, has played a significant role in establishing and maintaining the Sandinista-Liberal polarization.

Although US intervention in Nicaragua has been thoroughly documented and analyzed, this analysis shows that the material realities of intervention have also led to interventions in the way Nicaraguans participate in electoral politics and identify with a political party. Of course, the Nicaraguan people are not static and completely beholden to outside forces. In fact, many complex and contradictory social forces operate within the political citizenry. Before finishing this section, I will briefly discuss two such factors that make notions of partisan polarization messy: the image of Sandino and the generation gap.

The first such factor is the symbolism of Sandino as an iconic hero. Is he a Sandinista partisan hero, national hero for all Nicaraguans, or both? What do Nicaraguans who do not affiliate themselves with the FSLN think about the historical role Sandino played? Was he just a bandit or a source of national pride? These questions have different answers depending on the perspective of the person being asked. A well-educated Nicaraguan from a more affluent urban area may have a

different conception of Sandino than a subsistence farmer in the *campo*, even if both people are of the same political party.

In the editorial pages of *La Prensa*, one of Nicaragua's daily papers, much debate exists on who has the right to appropriate the memory of Sandino. Sandinistas claim (as Carlos Fonseca did) that the root of Sandino's activism was anti-imperialism, a foundational motivation of the FSLN ("¿Qué diría Sandino?", 2009; El regreso de Sandino, 2002). However, Liberals claim that the FSLN has distorted and used the memory of Sandino to promote repression and corruption. Liberals point to the fact that Sandino was actually a member of the Liberal party, not a communist party. Both parties agree that utilizing the image of Sandino is essential to capturing the imagination of the citizenry, and therefore plays an important and slightly different role with each partisan identity group.

Another factor that makes Sandinista-Liberal polarized identity problematic is generational differences in political participation. Contemporary social movements, involving the energy of youth participants that do not remember or were not alive during the 1979 revolution and much of the 1980's, can be seen as tamed outgrowths of the previous revolutionary movement (Beverly, 2009). However, these movements, often coined as the 'New Left' have lost their militancy, which drives new generations of activists to participate in the political system differently compared to their parents (2009).

In the minds of many young Nicaraguans, the speeches of Daniel Ortega and other politicians do not represent their idea of Sandinismo. In fact, recent surveys have

shown a decline in interest on the part of Nicaraguan youth to work within the institutional political system, including the existing party structure (Luna, 2008). Instead, youth are forming movements outside of traditional party structures to address issues important to them such as transportation costs, education, and youth influence in national policy. Meanwhile, the citizenry grows more discontent with the consolidation of the revolution; many feel that current party leadership does not represent the core values of the party (Lopez, 2009). In other words, a distance is emerging between political party leadership and how constituents identify themselves as political participants.

Although identity construction is always heterogeneous, dynamic, and complex, this section has attempted to situate contemporary political identity in Nicaragua within a historical context of major hegemonic processes. In the case of Nicaraguan partisan identity, we can see the major processes of revolution, US intervention, and nationalism at work in popular conceptions of being a Liberal or Sandinista [good wrap up]. The complexity in this polarization is underscored by the increase in partisan violence in recent years and the contradictory movement away from tradition notions of party affiliation. The case studies in this thesis will illuminate the nuanced way partisanship is played out as a lived experience at the community level and how a certain kind of civic engagement, microcredit, affects this dynamic. The final section in this chapter will briefly summarize the role of microcredit and microcredit groups in Nicaraguan society, thereby establishing the final piece necessary to address the key research question which links partisan cooperation and associational engagement.

### **Microcredit in Nicaragua**

Microcredit, as a form of economic empowerment, has become ubiquitous in development studies. Mohammed Yunus, founder of the Grameen Bank in Bangladesh, originally put microcredit into conversation by creating an innovative way of giving small loans to women's groups. The financial viability (represented by the payback rate) of Grameen loans was fortified by a system of mutual responsibility, whereby loan-seekers would only receive a loan once fellow community members paid back their loan (Yunus, 1997). A system of mutual responsibility serves as effective collateral on the loans as the power of community identity and social capital is deployed. Microcredit schemes have since assumed myriad forms and functions. Most, if not all, societies utilize microcredit as a normative form of community development.

For the purposes of this thesis microcredit organizations are associations or groups that extend small loans to individuals or groups that have no other way of accumulating capital. Typically, loan seekers have no collateral or credit history that would allow him or her to acquire a traditional bank loan. The reasons for extending credit are diverse but usually include spurring entrepreneurial growth within the community. The forms in which these organizations take are also quite diverse. Credit can be extended by government programs, banks, NGOs, or community-based organizations. They can be large, encompassing whole communities, or small with only a handful of members. Groups can loan only among themselves or provide credit to nonmembers. The case studies in this thesis will look at two very different forms of microcredit, one set up by an NGO and the other created within the community.

In Nicaraguan, microcredit programs and groups are numerous. According to the Nicaraguan newspaper, *El Nuevo Diario*, in 2006 the informal economy gave employment to 87.5 percent of the working population (Acevedo, 2006). The small start-up businesses that make up informal sector activities typically cannot access traditional lines of credit. It is this economic environment that generates widespread support for microcredit. One prominent international NGO, Finca International, supports over 2500 microcredit groups in Nicaragua (FINCA, 2009). According to their website, 80 percent of the loans are made to women with an average loan size of \$298. In August of 2009 *La Prensa* reported that the FDL (Fund for Local Development) and the BCIE (Central American Bank for Economic Integration) would extend microcredit loans to an additional 12,000 start-up entrepreneurs in Nicaragua (Ewest, 2009). In fact, microcredit has become so ubiquitous in the Nicaraguan countryside that anti-microcredit movements have emerged in response to exploitative practices (Ewest, 2008). Daniel Ortega, the leader of the FSLN and Nicaraguan president, has tapped into populist anger directed at microcredit schemes and has publicly denounced the practice (Alvarez, 2008). It is no surprise then that microcredit and credit groups can be found in even the most remote of rural areas as a normative element of community structure [but any figures on how many people total in the country are participating in microcredit?]. It is also important to note that the politics of microcredit play out much differently at the community level than in the national arena. Based on the results of this research, no consistent anti-microcredit sentiment could be found correlating with political identity.

The merits and pitfalls of microcredit as a viable tool for community development fall outside of the scope of this thesis, and will not be discussed as such. Microcredit groups are important to this study, however, in that they represent increasingly popular forms of civic association in Nicaraguan communities. In other words, microcredit groups have become normalized spaces of interaction between community members. As mentioned before, in many microcredit schemes a mutual responsibility system takes the place of material collateral. In order for a mutual responsibility system to work, a certain level of social capital must exist from which to enforce loan repayment. As defined in chapter two, social capital derives from a group's sense of shared identity and solidarity. Although a causal relationship may be established between group identity and loan repayment rates (and the ultimate success of microcredit as a concept), can the relationship be reversed? In other words, can the establishment of microcredit groups lead to greater solidarity and play a role in reshaping dimensions of group identity? As mentioned previously, the dimension of group identity most important to this study is political party affiliation. Chapter two discussed a comparative study showing how community associations contributed toward bridging divisions between Muslims and Hindus in India. Microcredit groups, if employed as forms of bridging associations, may represent a similar opportunity to bring differing groups together. With these questions in mind, I will now discuss the two communities of Sabana Grande and Ococona and their respective experiences with microcredit and partisan identity.

## CHAPTER IV

### METHODS

This chapter outlines specific methods used in analyzing the two cases of microcredit in this thesis including case and interview sample selections. The chapter concludes with a discussion of limitations and strengths of the study.

#### **Overview of methods**

This thesis research can best be defined as a qualitative exploratory study. I used data on participation, opinions, and observable interactions relating to microcredit and political conflict in order to operationalize the concepts of associational engagement, social capital, and cooperation in my case studies. My intent was not to prove causation or necessarily to prescribe a 'fix' that would build future cooperation in similar contexts. Rather I strove to lay a foundation that would provoke further research in how microcredit associations bridge, divide, or alter existing community social and political dynamics. Furthermore, this research builds on a growing body of literature that complicates the notion of community and local dynamics in a way that moves away from reductionist and static interpretations of the 'local.'

Specifically, I used a combination of primary and secondary data collection methods, including media reports, participant observation, structured and unstructured interviews, organizational websites, and institutional statistics to build primary data sets

for the case studies of microcredit in Sabana Grande and Ococona. I spent approximately three months prior to the research period selecting cases and making initial contacts in each community via telephone. The research period was August 1, 2009 through September 21, 2009, during which time I stayed with a friend who lived in a town close to both subject communities.

For general trends in microcredit and national/regional opinions on politics I collected relevant newspaper articles. I visited the mayors' offices and police stations of each municipality to gather statistics on demographics, politics, and violent conflict. Because I could not find published data on certain economic and demographic aspects of the subject communities, I relied on participant observation and unstructured interviewing to gain some background information. The core of my research efforts included interviews with two groups of people: those who did not participate in the microcredit groups but lived in the host communities; and those who participated in the microcredit groups. I used structured interviews (see appendix) with members of the microcredit groups in order to gather data on how participation in microcredit affected relationships and perceptions within the community.

All interviews were conducted in Spanish. No translator was used as I have reached an advanced level of Spanish through my Peace Corps service in Nicaragua. All interview data was gathered by note-taking and later translated by me from Spanish to English for the purposes of this thesis.

Three basic criteria were used for selecting the case communities: both communities had to be similar in population; both communities had to have similar

electoral histories; and both communities had to have a microcredit group that had been in the community for at least five years. I chose these minimum criteria to partially control for demographics and common political experience. Of course, many communities in Nicaragua contain these characteristics. As a Peace Corps volunteer from 2004 to 2006 I was relatively familiar with the region's culture and economy. I chose Sabana Grande because, other than the criteria listed above, I had already spent a significant amount of time as a volunteer in the community and had established relationships with many community members. I ultimately chose Ococona because a fellow Peace Corps volunteer who served in Ococona was able to introduce me to various community members. Therefore, Sabana Grande and Ococona, both of which fit my research criteria, were the most accessible communities due to my preexisting connections.

I selected unstructured interview participants using a convenience sampling method based on my ability to enter into conversation with them and on their status as a resident of the subject community. I collected unstructured interview data from six community members in Sabana Grande and five community members in Ococona. In Sabana Grande I interviewed four women and two men and in Ococona I interviewed four women and one man. I also recorded anecdotal information based on brief interactions with other community members as well as participant observation.

Structured interview participants were selected differently in each community based on the nature of my introduction to each. In the case of Sabana Grande, I was given the name and email address of a coordinator of the Association of Nicaraguan

Opportunity and Economic Development (ASODENIC) from a Nicaraguan community leader who lived near Sabana Grande. When I arrived in Nicaragua I scheduled a meeting with the coordinator and she invited me to an initial meeting with members of the trust bank in Sabana Grande where I scheduled interviews with all willing participants in attendance. The trust bank had a total membership of one man and eighteen women. Ten women were present at the meeting and all agreed to participate. According to the coordinator of ASODENIC the political composition of the microcredit group members in Sabana Grande is approximately evenly divided between the two main party affiliations of Sandinista and Liberal. My sample was made up of four Sandinistas, five Liberals, and one respondent who did not identify with a political party. Therefore, my sample was politically representative of the microcredit group.

In the case of Ococona, my Peace Corps contact gave me the contact information of three community bank leaders. I scheduled a visit to one of the community bank meetings through one of the leaders. At this meeting I discussed my research with the community bank participants and the community bank board chose ten members for me to interview. Unlike Sabana Grande I insisted on interviewing a sample of five Sandinistas and five Liberals. In this respect my sampling was stratified by political affiliation but did not completely match the demographics of the community as a whole, which has a higher percentage of Liberals.

My goal was to address the research questions in chapter one using a combination of comparing case studies and illustrating the lived experience of each community as distinctive narratives with distinctive stories to tell. In other words, the

project looked at similarities between the communities as well as unrelated differences of each community. Although these two methodologies seem contradictory, the combination of the two also better reflects the inherent complexities of community dynamics.

### **Limitations of methods**

My methods presented limitations. This section will discuss four of what I consider to be the most important limitations: sample size; subjectivity; cross-cultural issues; and community complexity. The end of this section will show that despite these limitations the findings are compelling and important.

The interview sampling size in this research is relatively small with no more than ten structured and five unstructured interviews in each community. It is difficult to generalize based on qualitative data from a small, non-random sample. However, I attempted to compensate for this limitation by spending much time and depth in each interview, drawing out as much narrative as possible in order to provide a rich level of texture within each interview. This helped to paint a more holistic picture of each community member's lived experience in relation to the topics of the research. Furthermore, proportionally the sampling size was more significant in the case of Sabana Grande's trust bank than Ococona's community bank due to the disparity in group membership of each.

Also, my historical experience with each community was different. In the case of Sabana Grande, I had had much more experience interacting with the community and even with some members of the trust bank from my two years as a Peace Corps

volunteer. Prior to this study I had never been to the community of Ococona. My Peace Corps contact, who is seemingly well-liked in Ococona, provided the initial legitimacy for my research among community members. These different experiences in my background with each community may have caused a differential in how interview participants responded to questions in each community. For example, it is possible that more embedded trust could be found between participants and myself in Sabana Grande due to my prior links to the community. Conversely, participants in Ococona may have been more guarded during interviews because they did not know me as well.

Also, cross-cultural issues were ever present. Although my Spanish language ability was advanced and I had extensive prior experience working and living in Nicaragua I was still considered an outsider. My role as foreign researcher raised implicit questions of hidden power and social asymmetries between me and my subjects which may have affected subtle ways in which questions were answered and information was given. My friendship with Nicaraguans and Peace Corps volunteers as well as my knowledge of social rules allowed me to partially mitigate some of these concerns, but not all. Furthermore, I attempted to gain more legitimacy by first speaking with leaders in each microcredit group first, who then introduced me to other members. Finally, it is important to mention the complexities of community. By focusing research activities on perceptions from a limited number of respondents and observable phenomena I inevitably left out other dynamics such as hidden historical and social processes at work within the community. Also, within the course of two months, one cannot get the full picture of power relations and subtle contentions between

various actors within even the smallest and outwardly simplest community. Microcredit participation and conflict were measured over a very short time period: five to seven years. This short time period also limits sustainability of social effects that are proposed by the study.

When taken individually each of these limitations could significantly debilitate the validity of the research findings. However, due to the exploratory and narrative-building nature of the project combined with the diversity of data sources used the implications become compelling. Biases in the process make each specific aspect of the research refutable, but taken as a whole, the study builds a mosaic of data that illustrates the central message of this thesis. Although limitations of exploratory qualitative studies create challenges in generalizability and causation, this study seeks to contribute to the body of knowledge that helps create a clear picture of connections between associational engagement and community cooperation.

## CHAPTER V

### CASE STUDY: SABANA GRANDE

This chapter examines a case of microcredit in the community of Sabana Grande, Nicaragua. The first section gives an overview of the community of Sabana Grande in terms of geography, economy, people, and experience with political violence. Next, I detail the nature and structure of microcredit in Sabana Grande, paying close attention to how the group interacts with the community. Finally, I discuss my findings from interviews conducted with community members inside and outside of the microcredit group in Sabana Grande. Ultimately the purpose of this chapter is to illustrate key components of the complex dynamics between microcredit, community cooperation, and partisan identity.

#### **Community overview**

Sabana Grande represents one of seven communities in the municipality of Totogalpa and lies in a fertile valley within the Segovia Mountains of northern Nicaragua about fifty kilometers from the Honduran border. According to the office of the municipal mayor, Sabana Grande has a total population of approximately 1,800 people. The municipality contains approximately 11,000 residents. The town of Totogalpa serves as the municipal seat and contains the mayoral office which provides services to all seven communities, including Sabana Grande. The main north-south

highway linking Nicaragua's capital, Managua, to northern cities passes through Sabana Grande, making the community very accessible for transportation, commerce, and tourism.

Geographically, Sabana Grande is located in a narrow region called the *zona seca* or dry zone. Unlike the coffee-producing cloud forests of nearby Dipilto and Matagalpa, the municipality of Totogalpa is semi-arid with relatively low amounts of annual rainfall. Surrounding hills are marked with cacti, pine trees, and other native dry tropical plants. Due to the dry climate and years of deforestation, the municipality increasingly must deal with problems of soil erosion, mudslides, and drought. Many residents told me that the main river in the area, the Rio Coco, which is barely a trickle for half of the year, was a strong flowing river all year long just ten years ago. Over the past ten years the area's agricultural harvest has increasingly become vulnerable to drought.

The majority of Sabana Grande's residents work in local agriculture. Many families have small plots for subsistence crops, the surplus of which are taken to local markets. Farmers grow beans, corn, tomatoes, and peppers in the rainy season of June through September. Seasonal labor needs in other parts of Nicaragua, as well as Costa Rica and El Salvador, provides supplemental income opportunities to many families in this region. Many school-age sons spend the December school break with their fathers or uncles working around the clock during the coffee harvests. Coffee provides a counterbalance to the August and September dry crop harvests. In addition to income

flows from regional harvests, some families benefit from remittances from the United States or Spain.

Politically, most people identify themselves and their families as either Sandinista or Liberal. When asked, most people agreed that the majority of families in rural areas of the municipality identify themselves politically as Liberals while the majority of the people living in the municipal seat of Totogalpa identify as Sandinistas. The municipal elections are often fraught with stories of dirty politics, corruption, and heated exchanges. In the elections of November 2008, many people said that the area experienced unprecedented violence not seen since the Contra War in the 1980s. The police officially reported 15 violent acts due to partisanship during the month leading up to the elections. However, some people told me that the police do not have the capacity to track and report all incidents of violence in the geographically large municipality and that much more violence occurred. One person who was working in the mayor's office at the time told me that he personally knew of 26 cases of partisan violence in the month leading up to the elections. Beyond the statistics, my interview results below will speak to the respondents' perceptions of political violence in Sabana Grande.

After Daniel Ortega became president in 2007, the FSLN seemed to grow stronger in Totogalpa and elsewhere. Since 1991, Totogalpa had been administered by non-Sandinista mayors. In November 2008, the FSLN won the mayoral race, which prompted many stories of corruption and lost ballots. In fact, many previously Liberal municipalities across the country flipped to Sandinista control during the 2008

elections. The change in the electoral map was not without controversy. Many sources reported claims of election fraud and intimidation leading up to the elections (Lacey, 2008). These events and the resulting Sandinista success led to a deepening of the divide between those who identify as Liberal and those who identify as Sandinista. This increasing partisan divide has the longer-term effect of damaging relationships built through informal and formal organizational relationships. Before assessing the change in social capital and examining the lived experiences of community members in Sabana Grande, I will briefly outline the microcredit model that has arisen in Sabana Grande.

#### **ASODENIC: An NGO microcredit model**

The microcredit group operating in Sabana Grande is best described as an NGO microcredit group, meaning that it is made possible and supported by a Nicaraguan NGO that, in turn, receives funds from an international organization. The Nicaraguan NGO is ASODENIC (*la Asociacion de Oportunidad y Desarrollo Economico de Nicaragua* or the Association of Nicaraguan Economic Opportunity and Development), whose regional office can be found in the departmental capital of Somoto, about 30 kilometers away from Sabana Grande. ASODENIC opened its doors in 1995 and currently has 14 offices in Nicaragua. The following mission statement is taken from ASODENIC's website: "To contribute with Christian love to the economic and social development of the Nicaraguan family in the neediest communities" (ASODENIC 2010).

The microcredit mechanism in Sabana Grande has many of the same characteristics as the solidarity lending model of the Grameen Bank in Bangladesh. ASODENIC sets up *bancos de confianza*, or trust banks, in communities with a focus on small or informal businesses. The organization seeks to establish trust banks that are comprised of people who have already started a small business. After a series of training workshops, the trust bank members elect a board of directors and begin administering and managing small loans. The following is a list of rules and characteristics regarding the establishment of a trust group:

1. The group should be made up of 15 to 35 people from the same community who have started small businesses
2. Members must be between 18 and 65 years of age
3. Members must attend all meetings/trainings facilitated by ASODENIC
4. Members must have legal identification
5. Group member businesses are very small and usually family businesses
6. Group member businesses have little or no collateral for traditional loans
7. Solidarity between group members constitutes collateral for ASODENIC loans (ASODENIC 2010)

Once the trust bank is formed, the above elements serve as requirements for persons interested in new membership. The actual growth of the trust bank in Sabana Grande over the past six years has been relatively slow [raises the question why], starting with 10 members and reaching 19, all but one of whom were women. The below results shed light on the reason behind this slow rate of growth. Loans are only made to members of the trust bank. The following is a list of conditions for loans made to members of the group:

1. The recipient business must be at least six months old (according to one of the coordinators that works with Sabana Grande)

2. The business must function as a “communal” business<sup>5</sup>
3. Business owners must perform their own administration and management
4. Loan-seekers should be coordinated through a board of directors who have been elected democratically
5. Each loan seeker will present an investment plan for the requested loan amount
6. Loan amount is between \$100 and \$300 (ASODENIC 2010)

Once a loan is obtained, the loan holder must pay back the full amount of the loan within 4 months. After a member has successfully taken and paid back two loans with ASODENIC they then become eligible to lengthen the loan period from 4 to 6 months. According to the ASODENIC website, loan payments must be made weekly; however, the employees of ASODENIC as well as bank members in Sabana Grande reported that payments were to be made every two weeks. As is the case with other popular microcredit models, loans are backed not by tangible collateral but by the solidarity of trust bank group members. Perceptions of this form of collateral will be explored in the following section.

Where do the funds for these loans come from? ASODENIC is wholly funded by a large international organization based in the United States called the Opportunity International Network (OIN). OIN funds locally-based NGOs that work to establish microcredit groups within the parameters of OIN. ASODENIC receives 100 percent of its funding from OIN, which in turn is funded by a mix of individual, business, and government moneys. According to OIN’s website, strategic partners, a common

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<sup>5</sup> The term ‘communal business’ was never clarified in the course of my research. However, based on my interviews, the members of the trust bank tend to help each other by sharing best business practices and, to a certain extent, communal management of loan payback.

euphemism for ‘donors,’ include the Bill and Melinda Gates Foundation, the Citigroup Foundation, and the Inter-American Development Bank, among others (OIN 2009).

The following is OIN’s mission statement taken from its website:

The Opportunity International mission is to provide opportunities for people in chronic poverty to transform their lives.

**Our vision** is a world in which all people have the opportunity to provide for their families and build a fulfilling life.

**Our belief** is that small-scale entrepreneurs can be big change agents in overcoming global poverty.

**Our mission** is to empower people to work their way out of chronic poverty, transforming their lives, their children’s futures, and their communities.

**Our method** is to provide microfinance services, including lending, savings, insurance, and transformational training, to people in need. To do this, we build and work through sustainable, local microfinance institutions.

**Our motivation** is to respond to Jesus Christ’s call to love and serve the poor.

In conversations with ASODENIC coordinators, I learned that some trust bank policies are set with each community in mind. For example, ASODENIC facilitates a series of trainings for the members of the trust bank in Sabana Grande. These trainings, which require attendance by all members of the trust bank, cover topics of loan management and business best practices. Although not technically invited, many community members who are not affiliated with the bank attend the trainings out of curiosity. A second community-specific policy is interest charged. According to the coordinators of ASODENIC at the time of my research, interest rates for loans to trust bank members in Sabana Grande were 4.6 percent monthly, or 55.2 percent annually.

Although this rate seems high, and is higher than loans issued from traditional bank lenders in Nicaragua, it falls within the average range of microloan interest rates (between 30 and 70 percent) charged in other parts of the global South (Pachico 2009; Fernando 2006).

Many of the characteristics defining the trust bank in Sabana Grande are commonly found in other microcredit projects both within Nicaragua as well as in other countries. The next section will attempt to shed light on the lived experiences and perceptions of the community of Sabana Grande in relation to the trust bank. Again, it is important to note that this study is more concerned with the trust bank's impact on the social dynamics of the community than with the success of the trust bank as a vehicle for economic development.

### **Interview results**

This section examines responses from in-depth interviews conducted with participants of the trust bank established by ASODENIC. The concluding chapter discusses the significance of these responses and show how they link to the research questions of this thesis. Interview topics covered four key areas: lived experience with microcredit; perceptions of community trust and changes in trust; perceptions of political parties and party politics; and perceptions of political conflict within the community. I will also add anecdotal information from my interactions with community members who are not participants in the trust group to add more context to the dynamics of this case study. It is important to note that my intention is to analyze

this case of microcredit not from the standpoint of community development but rather as a form of bridging associational engagement.

Overall, the members of the trust group in Sabana Grande reported a positive experience with microcredit. One woman said, “It has been a good experience. I have learned a lot, like how to sell things. A person can get a little ahead with these small loans. I now sell tortillas and bread out of my house.” Another young woman explained, “I started by learning how [trust] banks help people. Because of our economic situation, it is a good way to start bettering our lives. For example, a person could use a microloan to buy a pig. This is very important.” From a relatively comfortably house with one car, another woman explained the benefits to her family, “It has been very important for me and my family. My husband started building and selling furniture...he is now doing well with his business. I sell *nacatamales* out of our house to the people in our neighborhood.” Most people positioned microcredit as a new option for sustaining a livelihood through access to small loans from the trust bank. When asked who benefited from the trust bank most respondents said that only direct members and associated family members benefited materially from microcredit in Sabana Grande.

Although most respondents reported positive experiences with microcredit, most also voiced complaints about banking policies dictated by ASODENIC. These complaints included difficulties in meeting the frequent payback schedule and high interest rates on loans. As noted in the previous section trust bank members are

required to make loan payments every 15 days, starting immediately. One woman made the same comments multiple times in one interview:

The interest rate is expensive. We have to pay every 15 days and we have to pay fines if we are late. But we like to work with ASODENIC, even though ASODENIC takes some out of every loan for themselves. I have had a good experience with them overall.

A younger entrepreneur explained,

There are people who are afraid to get involved with microcredit and with the [trust] bank because they have to pay every 15 days. It is a very short time for people to have to make payments. Someone with a small business would have to work every single day for many hours in order to be able to make the payment in 15 days.

Furthermore, most people viewed ASODENIC as a profit-making business, not a non-governmental organization concerned with community development. In terms of common perceptions based on my interviews, no difference existed between a traditional Nicaraguan commercial bank and ASODENIC.

I interviewed one family who did not participate in the trust bank but who had a cousin who did. After the interview I asked them if they had any questions for me. They posed questions about the consequences to them should their cousin not pay back her loan. Despite ASODENIC's stated policy of not requiring traditional collateral for loans, these relatives of a trust bank member were visibly worried that the organization would come and take their home away. I also spoke with other people in Sabana Grande who were wary of involvement because they did not want an outside organization exercising control over their property. These interactions highlight the distance between ASODENIC's development policy and community perceptions.

When asked about levels of community trust, all respondents reported an increase in community trust over the same time period as the trust bank's existence. Most people reported that their relationships had improved and that they had built more relationships with other community members. Those who did not report improvement in community relationships simply stated that relationships had stayed the same. One young woman gave the following response to questions about changes in her personal relationships and overall community trust due to her involvement in the trust bank:

There is more trust. I know people in my community better because I deal with them more through my business. Over five years I have built more trust with people in the community. I now give advice to others who want to start small businesses.

Another business owner stated, "People here have treated me well. I sell fruits and vegetables to everyone and everyone knows my name. People generally trust each other here. The community is well organized." Interestingly, although respondents generally spoke about improved relationships, almost all respondents reported their roles as new sellers of products and services as the driver of these improved relationships. One woman who sells a certain food product from her house is now well known as *the* person to provide that product.

The other driver of relationships between members of the trust bank and other community members are their roles as educators. Many bank members would actively situate themselves as emerging experts in small business and loan management (which falls in line with the stated ambitions of the coordinators from ASODENIC). For example, one woman reported:

With the [trust] bank I have become closer to other people because I train them on how to use credit. This is not part of my function with the microcredit group. I voluntarily help people. Sometimes people need credit and don't know how to get it. So through my experience I am able to help them.

Members of the trust bank reported providing advice to existing friends and relatives. By actively engaging with the community in this capacity, the bank members could seek out future members of the bank. One question that was left unanswered in my research is why, despite the evangelical intentions of ASODENIC and the trust bank members, did subsequent bank membership grow so slowly? Follow-up interviews could uncover the underlying historical dynamics behind this phenomenon.

Chapter four explained that the trust bank in Sabana Grande is comprised of a mixture of people who identify as Sandinistas and those who identify as Liberals? In terms of political parties and conflict, my interviews uncovered a deep level of distrust and bitterness with politicians, especially national politicians. Many people interviewed reported proximate violent acts such as stone-throwing and machete attacks in Sabana Grande in the months leading up to the 2008 municipal election. Some even reported being harassed and threatened by other community members. Most attributed this violence to the opposite political party.

When discussing politics, most of the Trust Bank members framed community problems and conflict in strict partisan terms. For example, when asked about recent political violence, one young Sandinista trust bank member said, "During the elections there were fights and people in the streets throwing rocks. The problems occurred because the PLC was going to lose for the first time and they were scared." Another

person claimed that the community's lack of development was due to the corruption endemic within the current Sandinista mayoral administration. Most of the people interviewed in Sabana Grande agreed that politics and partisanship was a significant problem, while at the same time denouncing the actions of the opposite political party.

One elderly woman complained of proximate partisan tensions,

In some places there was violence. There are always people who are not well organized that start problems. For example there are some families who live on this street that do not talk to me because of my political party. Even the families of some of the bank members will not talk to me.

Another person mentioned her leadership role in one of the political parties and claimed that people try to keep her from speaking in the community and threaten her because of her political participation.

When speaking with one family, the husband told me the people in Sabana Grande were poor because the old Liberal government just gave handouts to people which promoted laziness. He went on to say that the old government helped the same families over and over while the new Sandinista government will be more inclusive. This notion of laziness also stretched into my conversations about the bank activities. Current members often mentioned how they had learned how to help pick themselves up and not rely on handouts. These comments echo the intentions of ASODENIC to help promote entrepreneurship and help people pull themselves out of poverty through access to credit.

A common perception of exclusion seemed to cloud the trust bank in Sabana Grande. Because of the requirements set by ASODENIC for inclusion into the trust

bank many community members evaluated this process through their existing partisan framework. One person not affiliated with the community bank explained that although ASODENIC has policies of non-discrimination, one could easily see that only certain families (in fact, families that have benefited from past projects) currently benefit from the trust bank. One person who identified herself as Liberal told me the bank was comprised of all Sandinistas, while another person who identified as Sandinista said the bank was in fact dominated by Liberals. These claims overlooked the fact that the trust bank actually held roughly an even mixture of Sandinista and Liberal members and had no official policy that discriminated against members or potential members based on political affiliation.

Community members outside of the trust bank reported envy among some community members over not being part of the group. Some community members recognized that there was a learning process that had to happen before one could be admitted as a member to the trust bank. Many of the members of the trust bank also participated in other community groups, which gave the perception of an exclusive club.

As I was waiting to conduct my first interview in Sabana Grande, I chose to sit on a bench near a path that led to the house of the interviewee. A woman walking down the path stopped to greet me. She politely asked what I was doing in her community and I responded by explaining my project and that I was about to conduct my first interview. Her reaction was surprising, and later I would find the interaction quite telling. She said, "I would love to be a member of the trust bank, but ASODENIC are a bunch of Sandinistas so I could never get in." Later that day I told a Nicaraguan friend

about this reaction and he told me, “Of course she said that, she’s a Liberal and that’s how she makes sense of the problems in her community.”

The next chapter will look at the contrasting case of Ococona and its alternate model of microcredit. Although my intention is not to conduct a straight comparison of the two cases, I will describe certain aspects of Ococona by placing them side-by-side with corresponding aspects of Sabana Grande in order to enrich my interpretations of the communities’ lived experiences with microcredit, social engagement, and politics.

## **CHAPTER VI**

### **CASE STUDY: OCOCONA**

This chapter examines microcredit and conflict in the community of Ococona, Nicaragua. The first section compares the community of Ococona with Sabana Grande in terms of geography, economy, demographics, and experience with political violence. Next, I will detail the nature and structure of microcredit in Ococona, again, paying close attention to how the group interacts with the community. Finally, I will discuss my findings from interviews conducted with community members inside and outside of the microcredit group. As in the previous chapter, the interview questions focus on perceptions of microcredit, politics, and conflict within the community.

#### **Community overview**

Ococona is similar in many ways to Sabana Grande. Geographically, the two communities are relatively close together: about 30 kilometers. However, because of the rugged topography of the Segovia Mountains in northern Nicaragua and the poor condition of the road between Ocotal (the departmental capital) and Ococona the two communities remain isolated from each other. Ococona resides in the municipality of Macuelizo. Like Sabana Grande, Ococona is a periphery community which relies on the administrative support of the larger municipal head town of Macuelizo. The municipalities of Macuelizo and Totogalpa are similar in population, political

demographics, and economy. The community of Ococona and outlying rural areas has a population of approximately 1,100 people. Unlike the easy access to the community of Sabana Grande, a dirt road connects Ococona to Ocotal. It is impossible to travel to and from Ococona in one day by public transportation. Two buses (often only one is running) travel out to Ococona in the afternoon and return early the following morning to Ocotal. However, Ococona receives a high level of traffic from NGO workers, cargo trucks, and other private vehicles.

Ococona lies close to the edge of the dry zone, giving residents a one-day walk to the coffee-producing cloud forest mountains of Dipilto and southern Honduras. Contrasting with the experiences of migrant workers in Sabana Grande, residents of Ococona have easier access to seasonal coffee-picking jobs, making it easier for residents to return to their homes on the weekends. Many of Ococona's residents work in similar subsistence agricultural products to those of Sabana Grande: corn, beans, vegetables, and cattle. I was unable to gather sufficient quantitative data that would illustrate the remittance levels in Ococona, but I did speak to a few families that relied on remittances from the United States. A casual observer quickly notes that although Ococona has a similar landscape and ecosystem to that of Sabana Grande, the community is surrounded by less deforestation. Healthy stands of pines and other dry tropical plants can be found in the area's landscape. However, this environmental difference does not keep the Ococona from experiencing years of drought in the dry season and flooding in the rainy season similar to Sabana Grande. Although further

research could uncover more nuanced social, political, and environmental differences between the two communities, they are quite similar in many respects.

Ococona also has a similar recent political history to Sabana Grande. Because Ococona is located in the Segovias near the Honduran border, the community shares Sabana Grande's proximity to the Contra War in the 1980's. This similarity feeds the same historical development of the Sandinista-Liberal dichotomy that influenced political identity in much of western Nicaragua (see chapter 3). As with Sabana Grande, Ococona was governed by a Liberal mayoral administration until the 2008 elections which ushered in the municipality's first Sandinista administration. Unlike Sabana Grande, there was little in the way of conflict, let alone violence, in or near Ococona before and after the election. According to the municipal police office, there were zero incidents of violence related to partisanship leading up to the election. The following interview data corroborates this statistic.

### **The Community Bank: An endogenous microcredit model**

I have labeled the model of microcredit in Ococona as *endogenous* due to the degree to which the bank evolved and has been maintained from within the community. The initial idea for the bank did not originate in the community; it was introduced by a Peace Corps volunteer who lived in Ococona for two years. However, once the idea was presented the Peace Corps volunteer had little influence on the functioning and ongoing iterations of the bank. Therefore, while imperfect, the label of endogenous microcredit will serve as a suitable comparative description, which will become clearer as the model is further explained.

The group started as a women's group of 17 members in 2004, which was called *Las Mujeres avanzando por un futuro mejor* (Women working for a better future). Since then, the group has grown into a community bank which is currently comprised of 57 community members, both men and women, women making up the grand majority. Like the trust bank in Sabana Grande, the members of the community bank of Ococona are the only direct beneficiaries of loans within the bank. The bank has a board of directors made up of 5 people, each of whom is responsible for a certain aspect of managing the bank. Bank meetings, which are mandatory for all members, are held every two weeks without fail.

There are significant differences in structure and process between the community bank in Ococona and the trust bank in Sabana Grande. First, unlike a more conventional solidarity lending group, the community bank in Ococona can best be thought of as a savings and loan model. The community bank receives no funds or direction from outside of the community. Each of the 57 bank members are required to deposit a small amount of money (one dollar) every two weeks. In 2004 the bi-weekly deposit requirement was 50 cents. These bi-weekly deposits, as well as subsequent interest and fees, form the financing by which the bank can make loans available to the same group of depositors. Second, the bank closes and dissolves at the end of each calendar year. In January the bank starts meetings and operations for the year. Every November the bank closes and the funds are divided up equitably among the participating members. In other words, a fully contributing member will receive his/her deposits plus a proportional share of interest and fees collected during the year's

operation. This policy was created to meet the higher family expenditure demands for school graduation in November and Christmas. Third, policies regarding form and function of the bank are created, changed, and eliminated due to the will of the 57 members (not the board of directors). My research uncovered many interesting policies that were implemented over the course of the bank's evolution to more adequately fit the bank model to the needs of the community.

As part of my first interaction with the community bank in Ocoona, I attended a bi-weekly bank meeting and observed how the board of directors managed the meetings. The bank funds were kept in a wooden box with three locks. The president, vice-president, and treasurer each had a key to one of the locks. First, members of the bank would be called up individually to contribute his/her deposit. Next, any outstanding penalty fees (see below) would be called out by the board. Then the bank was open for loans, meaning that any person needing a loan could approach the board at that time. The following is a list of loan parameters:

1. Only depositing members of the community bank are eligible to take out a loan
2. Loans cannot exceed \$50
3. Loans must be paid back within three months
4. All loan payments are accompanied with a 10 percent simple interest charge (equating to 40 percent simple annual interest)
5. Loans can be used for any purpose

According to bank participants, loans have been used for a wide variety of reasons including student supplies, college tuition, farming tools, and small business investment. Compared to the loan requirements of ASODENIC, the community bank in

Ococona gives smaller loans without usage requirements. The payback timeline is a month shorter and the annualized interest rate is a little lower as well.

Beyond loan interest, the bank also generates money due to fees imposed on its members. If a member does not show up to a meeting, they are assessed a fee of 10 cordobas, or about 50 cents, and if they send a written note with an explanation for their absence they only pay 5 cordobas. Fees are also assessed on loans that are not paid back within the required three months. These extra fees contribute to the amount that is available to loan out as well as the sum total that is distributed among bank members at the end of the year.

Since the inception of the community bank, members have created additional bank policies to adapt the organizational function to specific needs of Ococona. First, the bank now administers loans from a "social fund." Members or groups of members who have experienced an emergency (illness, natural disaster, etc.) can take a zero-interest loan to cover related expenses. Typically this process involves the whole membership of the bank to coordinate, administer, and pay back loans from the social fund. Unfortunately, I did not gather any information on specific instances or frequency by which this fund had been used. Also, due to the widespread membership of the bank (most families in the community have at least one member in the bank), the meetings are now used to conduct other community-related business such as addressing socioeconomic problems affecting the area. Lastly, the bank now holds a celebration each month for members who have birthdays within the month. A small amount of

bank funds are used to buy a cake. According to participant interviews, these changes evolved from an internal process of consensus among bank members.

The members of the community bank of Ococona have decided to cap the growth of membership into the bank to its current size. As a result of this cap and increasing demand to participate, community members have started other banks. There are currently seven community banks in Ococona and outlying areas, including a youth bank and a women's bank. My research yielded no indication that these banks competed with each other and in fact many members of the main bank were also members of one or more other banks. The growth in demand and participation in the community bank model indicates how well the model has been received by the community. The next section will illustrate the lived experiences of the bank's members through examining interview results, using the same framework used with interviews in Sabana Grande.

### **Interview results**

This section will compare the lived experiences of the community members of Ococona with those of Sabana Grande in relation to the four key interview topics: lived experience with microcredit; perceptions of community trust and changes in trust; perceptions of political parties and party politics; and perceptions of political conflict within the community. The experience of Ococona with microcredit, social capital, and cooperation contrasts strongly in many respects with that of Sabana Grande.

All respondents reported good experiences with the community bank of Ococona. The following is a statements made by a young school teacher when asked to describe her experience:

The experience has gone very well for me. When we have financial needs the bank gives us access to funds. This [community bank] is the same model that was started in Ecuador... We have a lot of trust in the board of directors of the bank.

A young woman going to school explained, "I've received loans for secondary school and the university. Now I'm studying math. I've seen very positive changes because of the bank. It has bettered my self-esteem and it helps me manage my money." In most of the respondents' commentaries, the community bank played a more heterogeneous role in the community than the trust bank in Sabana Grande. The bank served as a source of financial capital but also served as a source of building trust, networking with other sectors of the community, and building an overall sense of community pride.

I heard no complaints or reports of problems with the community bank while conducting interviews in Ococona. Unlike the disparate views on the benefits of microcredit in Sabana Grande, community members in Ococona seemed to agree that the bank had brought strong benefits to the community, both economically and otherwise. Since the goals of my research did not involve assessing tangible economic impacts of the microcredit models, I did not collect data to compare development outcomes in the two communities. However, there exists a stronger perception of overall betterment in Ococona due to the activities of the community bank.

How has the community bank in Ococona affected social capital and levels of cooperation through associational engagement? Below is a quote from an interview with a young farmer who was answering questions about bank benefits and how his relationships with other community members have changed through the bank process.

Particularly relevant text is italicized:

The bank helps us during the planting season. To meet every 15 days is really helpful. We can *share our difficulties*...it's like a *community help group*. We celebrate birthdays every month as well as special occasions like mother's day or father's day. Since the bank closes every December, we have money at the end of the year to help with school expenses and Christmas.

Another young student stated, “[The community bank] has helped. A person can remain secure knowing that their money is secure. I take out many loans per year. *I also help others get loans so I've strengthened those relationships.*” This student became a de facto source of information for other community members which indicates similar forms of relationship-building as in Sabana Grande.

Relationships were based on other circumstances as well. One community member stated, “The other great thing about the bank is that if someone in the group has a problem paying their part one month, *people unite* to help them pay.” When discussing other benefits of the bank, one school teacher explained,

The bank meetings also serve as a way to have fun and *organize ourselves as a community*. We also organize other types of activities in the meetings. We also share our experiences with other people. The other good thing is that everyone in the community is welcome. There is no discrimination.

Another young woman discussed the networking dynamics of the bank:

I've helped others to participate in the bank. I've networked through other organizations and groups to *include more people in the process*. Along the way I've *built better relationships with people*. It has helped me. Before the bank, I never met with these people. Now we meet every 15 days. We chat and get caught up on each other's lives.

A secondary school student explained how the bank had evolved into a communal gathering spot. He said, "We also celebrate birthdays every month in the bank meetings. For example, for everyone who has a birthday in that month we celebrate with one cake at the bank meetings." A common statement made by respondents was that before the bank, they knew a lot of faces but did not know people's names or anything about them. Now, after participating in the bank they feel like they are very close to these community members. Obviously, it becomes easy to romanticize the experiences and relationships in Ococona based on the overwhelmingly positive comments made from respondents. More research needs to be conducted in order to problematize this idyllic sense of social capital by peeling away historical issues involving power relations, exclusion, and conflict. It is important to consider these findings while knowing that a more nuanced picture is always desirable.

With these limitations in mind, one can see a stark contrast with the interview results from Sabana Grande. While relationships in Sabana Grande were seen to be affected mostly by business and mentorship interactions, relationships in Ococona were strengthened by a more holistic interaction between community members. Participants discuss business and commerce, but also interface on important community and family issues in the bi-weekly community bank meetings. I detected no sharing of this nature between the members of the trust bank in Sabana Grande.

As mentioned above, many key aspects of the bank were implemented after its inception in response to a diverse set of community needs. Through my interviews, I was able to catalogue many of these evolutionary aspects of the bank. Recent policies included the creation of a social fund, use of funds for special celebrations, and birthday recognition. Such new policies have served to further improve relationships and build community social capital. Furthermore, because these policies were developed within the bank, participants feel that they have ownership over the process and outcomes of the community bank.

In addition to improved relationships, respondents reported increasing community problem-solving engagement in bank meetings. When the bank first started, bank meetings were exclusively used for bank business. However, over time participants realized the value of taking advantage of the relatively high participation and frequency of meetings to address other community issues. In other words, the community bank meetings have also become a *de facto* space for frequent town hall meetings. This aspect of the bank provides yet another example of how the participants were able to utilize community agency to mold the microcredit model to their particular situation.

Inclusion was a common theme in Ococona interviews as well. People interviewed felt that community members could join or resign from the community bank at will, without restrictions. Most described this aspect of the bank as non-discriminatory. As is shown in the comments above, one respondent explicitly states, “There is no discrimination [in the community bank].” Informal interviews with

community members who did not participate in the bank corroborated this sentiment. All agreed that the bank was beneficial and that if they wished to join in the bank they easily could. In fact, all outside respondents had at least one family member who participated in the bank at the time of the research.

Perceptions of politics and partisan identity fall in line with the lack of statistical violence reported from the municipal police department. Only one respondent in Ococona reported partisan conflict and she attributed the conflict to a band of youth from another community passing through in a pick-up truck trying to incite violence. Most people interviewed in Ococona claimed that partisan violence does not occur in this area. There had been violence as recently as five years ago, but outbreaks of violence were all but unthinkable in the most recent municipal election. Contrasting with Sabana Grande, community issues are framed in a particularly nonpartisan, and even anti-partisan, way. For example, when asked about Nicaragua's current political climate, one person told me, "Each side only works for their side. If people would just unite and shed their [partisan] differences we could move forward as a country." When asked about changes in thinking about politics, another person said, "We have built more links between each other. We learn to like people who we did not like before. We now realize that we're all equal," and "Before, I had problems [with politics]. Lately, we understand that in times of trouble our neighbors help us, not political parties. Even though all of my neighbors are Sandinistas, they are now my friends." The large number of comments of this nature suggests that significant partisan bridging has occurred over the past five to seven years in Ococona. Partisan bridging or shifts in

importance attached to political identity probably happened in multiple facets of the community which this project did not look into. However, as shown above, interviews also uncovered perceptions of relationships strengthening in diverse ways through interactions within the community bank.

People in Ococona also seemed to be keenly aware of partisan conflict and violence inflicting other areas of Nicaragua. Most were able to discuss at length the violence that had cropped up in Managua during the municipal elections and the current politicized relationship between Nicaragua and Honduras. One person explained that years ago (the respondent could not elaborate on how long ago) neighbors and family members used to fight over partisan issues in a similar fashion but that now the community is calm. People do not identify themselves as partisan actors. Another person told me that occasionally political officials would travel to the community but people were not really interested in participating in rallies or political events. Based on these comments, one can see a reduced importance placed on political party in how community members identify themselves.

How do feelings about politics relate to Ococona's experience with the community bank? The rapidly increased associational engagement and subsequent increase in social capital in Ococona seems to temporally correlate with a decrease in identification with political party. However, the purpose of this study is not to establish definitive causation between Ococona's microcredit experience and a reduction in political violence. Rather, it is important to note the importance of the community's experience with the community bank in contributing to a more cooperative sense of

community identity. Although, the most tangible indicator of this cooperation is statistics on political violence, the lived experiences and testimonials of participants in the community bank also illustrates the evolving cooperative dynamic in Ococona.

The next chapter will take a comparative look at the experiences of Sabana Grande and Ococona to better interpret the relationship between associational engagement and cooperation in this context. Also, the analysis will return to the theoretical framework outlined in chapter three and address the principal research questions of this thesis, utilizing the results from the two case studies.

**CHAPTER VII**  
**INTERPRETATIONS: ASSOCIATIONAL ENGAGEMENT, POWER, AND**  
**COMMUNITY**

Is it possible to draw conclusions about cooperation dynamics based on the case studies in this thesis? Many important social and cultural aspects of these communities are left unexplored and demand further investigation in order to get a more holistic explanation of outcome differences. However, the results do provide a compelling basis for further comparative work. Furthermore, the results contribute to existing literature on social capital and bridging associational engagement by illuminating key elements of civic relationships such as power, agency, and levels of inclusion.

This chapter will provide interpretations and discussion of empirical findings from chapters five and six. I will discuss the case studies comparatively to uncover partial explanations for disparate experiences and implications for the larger issue of connections between microcredit and community experience. Based on interview responses three theoretical dimensions can help explain the differences in community experience between Sabana Grande and Ococona. The differences are: distinct microcredit structures that in turn lead to distinct forms of bridging relationships; differences in power relations embedded in each microcredit model; and allowances for community complexity. The following sections will discuss these three dimensions as

they apply to the case studies. The chapter will conclude with a discussion of opportunities for further research.

### **Microcredit engagement**

As the empirical case study chapters showed, the research process uncovered very different experiences between microcredit, microcredit participants, and the community. From a purely comparative standpoint each microcredit model was very different which could account for much of the difference in community experience. Although participants generally viewed the trust bank as beneficial in Sabana Grande, they also expressed various levels of distrust and discontent over ASODENIC policies. Also, the research yielded community tensions around the trust bank due to perceived exclusion. This result contrasts sharply with the experience of Ococona, which viewed the community bank as inclusive and fundamental for building cooperation.

The trust bank in Sabana Grande had a strict policy of lending money only to group members who were entrepreneurs and who would use bank funds for related business activities. Furthermore, the bank facilitated greater interaction between bank members and the community directly through market-exchange activities. The small business requirement policy placed a limit on other forms of engagement. In other words, the trust bank started with building financial capital and limited its interaction to the sphere of financial capital accumulation. All else being equal, financial capital accumulation without a balance of social capital accumulation may lead to increased divisions between those who are perceived beneficiaries and those who are left out.

Although, social capital could potentially build through intensifying networks of commerce relationships, no evidence of this nature was found in Sabana Grande.

In the case of Ococona, participants were able to use bank funds for any reason they deemed necessary. This has two practical effects. First, the openness of this policy presents more opportunities for agency and self-determination among members of the bank. Participants feel that they have more control to creatively solve problems because they are not limited to use bank funds on business activities. Second, this space for creativity leads to relationships based on cooperative problem-solving. Participants in Ococona expressed more willingness to help their fellow community members pay back loans that were not solely taken to enhance profit-seeking activities. Because the funds are used for myriad reasons, market-exchange and non-market exchange relationships are leveraged in keeping the bank stable and functional. As the bank evolved, members took advantage of routine bank meetings to discuss unrelated community issues as well.

From a theoretical standpoint, the trust bank in Sabana Grande builds financial forms of community capital and bridging relationships based on financial capital, not social capital. Alternatively, the community bank in Ococona builds financial capital, *while at the same time building social capital among its constituents*. This is true because the bank constituency in Ococona controlled bank policies which promoted spaces for community interaction beyond commerce. According to the narratives of bank members, the community bank frequently utilized this interactive space to mobilize bank resources to address communal issues, such as infrastructure or

community celebrations. In this respect, the community bank was able to bring members together to address community issues which served to increase networks of trust among constituents. Although I am not trying to prove causation of cooperation, the empirical snapshot of more diffuse and diverse relationship-building found in my Ococona interviews suggest that the community bank has been more successful at creating cooperative spaces than the trust bank in Sabana Grande. Additionally, the data on reported political violence adds one more layer of compelling evidence to the picture.

Why might these two differing experiences with community capital affect levels of cooperation? Although the findings of this research generally agree with claims by Varshney and Putnam that associations which promote bridging activities foster more intergroup cooperation than associations engaged in bonding activities, I would contend that this claim does not go far enough in its explanatory power. Both the trust bank in Sabana Grande and the community bank in Ococona foster bridging activities that build relationships between Sandinistas and Liberals. However, the difference lies in how each microcredit group generates community capital and how this dynamic maps onto pre-existing cooperative dynamics within the community.

Although financial capital builds relationships through increasing economic interactions in Sabana Grande, the benefits of financial capital become politicized, leading to increased political divisions. Respondents outside of the trust bank perceived participation as being the result of political connections. Even some members of the trust bank expressed distrust towards other members due to their political affiliation. In

this case the rigidity of the microcredit model, which limited participation and access to credit based on ownership of a small business, combined with an existing environment of political mistrust to foster perceptions of exclusion which further exacerbated tensions between partisan groups. The case of Sabana Grande illustrates how inflexible microcredit policies preclude transformation of financial capital to social capital, which ultimately affects overall cooperation dynamics.

In terms of fostering cooperation, the community bank in Ococona has three structural advantages over the trust bank in Sabana Grande. First, community bank policies are set and changed within the constituency of the bank, not from an organization perceived as 'outsider.' This allows the community to exercise agency as a cooperative group and to minimize tensions with outsiders who do not have a perceived stake in the community. Second, the community bank model places structural emphasis on building social capital as well as financial capital. This is true partially because loan amounts are relatively low, which reduces the perceived risk of any one constituent misusing bank funds. Also, there are no official restrictions on the use of funds. In Ococona people used funds for a wide range of activities which promoted greater interaction between community members overall. For example, instead of interactions based solely on business transactions, one member might take money to pay for school supplies so that she might be able to go to school. A teacher, who is also a member of the community bank, now interacts more with the teenage recipient outside of the bank which generates a personal stake in the student's future. The flexibility of the use of funds spilled out to the rest of the community in the form of

more diverse forms of relationship-building. Again, these policies more effectively match the flexibility needed to address complicated family and community situations. Finally, the bank also had a structural advantage in how it allowed all members of the community who were willing to deposit regularly to join, regardless of prior experience as entrepreneurs or training in financial matters. The members viewed community bank participation as real-world training. This open-admission policy helped to counter outside perceptions of exclusion based on political or familial connections. In summary, these structural advantages allowed the community bank in Ococona to more effectively interact synergistically with the overall community.

### **Power and community agency**

The case studies in this thesis present two contrasting pictures of power-relations between those who set microcredit policy and those who participate in microcredit activities. Furthermore, the research suggests that the nature of these power relations also spills out to the community beyond the immediate membership of the microcredit groups. These effects represent unintended consequences not seen by development planning from outside of the community.

Many of the policies implemented by the microcredit groups in Sabana Grande and Ococona were similar. Interest rates were both around 50 percent, loan terms were comparable, and both had non-discriminatory policies in terms of political affiliation and socioeconomic status. However, in Sabana Grande interview results revealed tensions around these policies. According to respondents these tensions arose due to the fact that the policies were created from the ASODENIC coordinators who lived in the

nearby city of Somoto. Also, these policies were seen as benefiting a pre-designated group of people in the community and that people who were not part of this group would never benefit from the trust bank. Regardless of whether these perceptions are true or not, community members had stigmatized the trust bank as a source of exclusionary power controlled by outsiders.

Conversely, the case of Ococona yielded much different perceptions. Community members did not voice complaints about the interest rates or other policies of the bank. Respondents took pride in the fact that they were the sole owners, policy-setters, and beneficiaries of the community bank. Even nonmembers felt that the bank would be open to their participation if they so chose. Although many factors could have contributed to this difference in perception, it is hard to overlook the frequency by which respondents expressed content and pride over their perceived agency within the bank.

Again, this thesis is not trying to prove that structuring microcredit so as to allow for maximum community agency will definitively cause greater cooperation. However, one cannot ignore the need to consider the extent to which communities can determine the rules of microcredit as an important element in this dynamic. A more comprehensive study would need to examine other microcredit cases in differing contexts to strengthen a comparative claim about causation. The Ococona experience does contribute to a body of work that discusses the virtues of bottom-up development and cooperation through civic engagement.

### **Accommodating complexity**

Related to levels of agency is the concept of flexibility and responsiveness. James C. Scott (1999) discusses the importance of local forms of knowledge production and the role this production should play in development planning. This concept also partially explains the empirical differences between Sabana Grande and Ococona. The trust bank in Sabana Grande was structured and standardized to promote economic growth through supporting entrepreneurial activities. Even within the arena of 'economic growth' and 'entrepreneurial activities' ASODENIC, not the community, sets the boundaries and definitions. Therefore a standardized definition of these activities is imposed on all target communities regardless of distinct historical, cultural, and political characteristics. This top-down rigidity risks contributing to social dissonance and unintended divisiveness in communities with complex cultural forces and stakeholder motives.

Although the picture of cooperation in Ococona that this thesis paints seems idyllic, it serves to underscore the effectiveness of associations and development schemes that remain responsive to local forms of knowledge and dynamic community change. The community bank creates spaces for the community to exercise its own creativity and employ its assets without outside constraints. Ococona, through strengthened social networks and organizing experience, may be more resistant to social shocks such as political violence.

Of course, this research also raises some important questions. Do the results imply that community banks like the one in Ococona are panaceas for making

communities immune to violent conflict? Can these effects be replicated in other communities? The reader should know that the results of these case studies are incomplete and leave much to be explored. Further qualitative research could uncover deeper social and historical forces that could surface in the face of economic or political shocks. It would be a mistake to consider the community bank as anything more than a compelling factor in the constellation of social forces at work in Ococona. In terms of replication, the community bank in Ococona can be applied to other communities to the extent that it allows for maximum agency, inclusion, and flexibility that a complex community of human beings requires.

### **Conclusion: Microcredit, associational engagement, and cooperation**

Returning to the research questions established in the introduction of the thesis, we find both strong and contradictory answers to each question. Again, this thesis focuses on microcredit as a community association because of its unique characteristic of building financial capital versus other forms of community capital. This research asks whether microcredit can substantially alter community member identity and strengthen levels of cooperation.

First, I asked if the formation of microcredit groups can play a significant role in bridging cultural identity groups. Results from the case studies indicate that each microcredit group helped community members build bipartisan relationships. However, it is not enough to simply measure the increase in social links between Sandinistas and Liberals. Research must look deeper into these connections to examine whether long-term cooperation can be fostered, which leads into thinking about community capital.

The second research question asks to what extent microcredit contributes to or detracts from the social capital of a community. The perceptions of respondents indicate that microcredit can contribute to social capital if it remains open to local forms of knowledge, community agency, and changing situations. The microcredit model that remains rigid, top-down, and does not match community social dynamics can detract from social capital and potentially increase divisiveness. Due to its ubiquitous availability by development institutions combined with inherent activities that alter forms of community capital, microcredit can represent a resource for communities to reshape identity and significantly affect social capital.

Ultimately, if we assume that increased social capital through bridging relationships leads to more intergroup cooperation, then we can address the third research question in this thesis. Do microcredit groups act as unique forms of associational engagement that foster greater cooperation in the Nicaraguan context? The results from this thesis imply that the possibility exists for microcredit groups to serve as vehicles of cooperation-building. However, this thesis should also serve as yet another warning sign about unintended consequences of narrow development schemes. A rigid microcredit model that stubbornly sticks to building financial capital and supporting entrepreneurship as its only task has a greater propensity of causing negative social effects. Perceptions of exclusion, outside policy imposition, and fostering relationships based on asymmetrical economic exchange all risk exacerbating conflict within communities.

On the other hand, the case of Ococona shows a promising case of flexibility and dynamic microcredit that may strengthen relational networks within the community while solving tangible financial problems. Care should be taken to maximize inclusion of multiple cultural identity and partisan groups and allow for community agency in both structure and policy within microcredit groups to make these associations truly bridging in nature. Ultimately, this research highlights the ever-important task of re-focusing the development lens away from narrow conceptions of economic growth, and instead on community complexity, agency, and empowerment. Furthermore, there may be little distinction between ‘development’ and ‘cooperation-building’ when it comes to the effects of microcredit around the world. Clearly more empirical work is needed to explore this important connection.

**APPENDIX A**  
**STRUCTURED INTERVIEW QUESTIONS**

1. How long have you been participating in the microcredit group?
2. Do any of your family members participate in this microcredit group?
3. Tell me about your experience with the microcredit group.
4. How have your interactions with the community changed as a result of your participation in the microcredit group?
5. How does the microcredit group interact with the community?
6. Do you think the microcredit group has benefited the community? How? Have there been benefits/problems to the community resulting from the microcredit group beyond financial assistance?
7. What does the rest of the community think about the microcredit group?
8. Does the microcredit group work with other community groups?
9. Does the microcredit group engage in community activities beyond providing financial assistance?
10. Do you participate in other groups or associations in the community? Which ones?
11. Do any of your family members participate in any community activities/organizations?
12. Does the microcredit group actively petition local government officials to take action?
13. How did the microcredit group involve itself in the municipal elections last year?
14. In your opinion, what are the most serious problems facing the community?

15. In your opinion, in the past 3-5 years, has the level of trust between people in the community gone up, down, or stayed the same? Why do you think this is?
16. What do you think about the political parties that operate in the community?
17. Has there been conflict in the community over politics? What kind of conflict?
18. How do you feel political party conflict can be reduced to create more cooperation in the community, while still respecting political party affiliation?
19. Have you or your family been excluded from community organizations or activities? Explain.
20. Do you affiliate yourself with a political party? Which one? How do you feel about people from the opposing political party?
21. How does the community organize to solve problems? Can you provide some examples?
22. In your opinion, does the microcredit group assist in solving community problems? How? In any way beyond financial?
23. In your opinion, does microcredit increase or decrease conflict between political parties in the community? How?
24. Do you think microcredit is an effective form of community development? Why or why not?

**APPENDIX B**  
**UNSTRUCTURED INTERVIEW QUESTIONS**

1. In your opinion, what are the most serious problems facing the community?
2. How does the community organize to solve problems?
3. Would you say that there is a lot of solidarity between families in this community? Why?
4. In your opinion, in the past 3-5 years, has the level of trust between people in the community gone up, down, or stayed the same? Why do you think this is?
5. In your opinion, what are the most important groups or organizations in the community? Why?
6. Do you participate in any association here in the community?
7. What is your opinion on the microcredit group? Does it help or hinder the community?
8. Has there been conflict due to politics in this community? During the municipal elections last year? What kind?
9. Compared to other communities do you think there is more or less conflict in this community?
10. Do you affiliate yourself with a political party? Which one? How do you feel about people from the opposing political party?
11. How do you feel political party conflict can be reduced to create more cooperation in the community, while still respecting political party affiliation?
12. In your opinion, does microcredit increase or decrease conflict between political parties in the community? How?
13. Are there any other strengths or weaknesses of the community that have not yet been discussed?

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