Jubilee House Community
Center for Development in Central America
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www.jhc-cdca.org

THE VIDA FUND

Building Lives Through Livelihood

The Center_for_Development_in_Central_America's (CDCA) work_in_Nicaragua focuses on working with communities to improve the lives of the poor. The work centers on Ciudad Sandino, an urban area outside Managua with an effective unemployment rate of 80%. Without jobs and without any social welfare system, the people of Ciudad Sandino are living without the basic necessities of life: decent housing, clean water, latrines, food, clothing, and medical care for their families.

What is the CDCA doing to help?

Since 1994, the CDCA has been making **microenterprise loans** to small businesses. After 15 years' experience in this area, we believe that micro-lending is **essential**, but **insufficient**: individuals and small businesses need access to capital in the form of small low- or no-interest loans in order to succeed and improve their lives, but *they remain poor*. Micro-lending can move people within the scope of poverty, but in order to really lift themselves **out of poverty**, the poor need a more serious investment under a different model. So we now also partner with worker-owned cooperatives with **The Vida Fund.**

Initially, the CDCA had a **revolving loan fund** to finance larger creative initiatives. Now this fund is expanding into **The Vida Fund,** a *shared risk_investment_fund* that partners with the poor to build lives through livelihood. Together with the cooperatives we work to ensure that their businesses succeed. We help them learn business management, cooperativism, accounting, efficient production practices, quality control, import/export, niche marketing, organic and fair trade certification and other issues relevant to their co-ops. In this way we maintain a formal yet dynamic partnership with the cooperative groups receiving loans and ensure the co-op members have the tools necessary to run their business successfully.

The purpose of The Vida Fund is to bring investors interested in promoting economic fairness and opportunity together with the poor, who have no money to invest, but do have their time and labor which becomes their "sweat equity." In Nicaragua, the cooperative is the legal company form established specifically to enable poor people to create an enterprise. The Vida Fund is being used by the CDCA to provide long-term financing of partner cooperatives for asset acquisition such as building or equipping a factory. (The purpose is not to provide funds to cover operating expenses.)

How does The Vida Fund work?* The CDCA carefully chooses partner co-ops and invests capital through The Vida Fund, which is financed by donations and investments. Each partner cooperative invests through the sweat equity of its members. Estimated income for partner co-ops is carefully calculated to be sure a project is viable *before* investment (see "Financial Projections Genesis" for a sample at *www.jhc-cdca.org/microent.html*). Once a partner co-op is approved, The Vida Fund loans funds for initial start-up and expansion through construction and equipment purchase. Then the co-op repays its loan to The Vida Fund with its income, and The Vida Fund repays investments to investors. An annual auditors' report of The Vida Fund will be available from 2010 onward.

What is the risk of the partner co-ops? **Sweat equity** is the unpaid work that co-op members contribute during the formation stage of the co-op. The co-op members decide what value to put on those hours. In the case of the Genesis spinning co-op, members' work is valued at $0.50/hour and each member has worked 1,000 hours and built up $500 equity. By Nicaraguan law, when members leave the co-op or the co-op is dissolved, members are entitled to assets they brought to the co-op – i.e. their initial sweat equity – **plus** any profit sharing and interest.

What interest rate does the CDCA charge partner co-ops? No more than **6%** annual interest, calculated on the balance. That can be compared to commercial banks in Nicaragua which lend at 18-25%, and microfinance institutions which *on average* lend at 36%. Start-up loans through **The Vida Fund** are long-term on order to allow co-ops to begin earning before payments come due, and co-ops working with the CDCA are **always** allowed to pre-pay loans.

What are the risks to investors? We have a 15 year track record. Since 1994, the CDCA has received investments of more than $352,000 and has maintained 100% repayment to its investors, *even* after Hurricane Mitch, when all the farmers' crops were destroyed. Still, there are risks. Political instability, natural disasters and economic slowdowns could inhibit the co-ops' ability to repay. At the same time, the marginalized populations who benefit from The Vida Fund loans typically have no collateral to offer in case of default. *

Therefore, the CDCA has introduced several safeguards in its lending procedures to help ensure repayment in spite of such risks.* (See below.)

How does the CDCA mitigate these risks?*

1. *Maintaining sufficient equity.* The Vida Fund's equity is money that the CDCA owes to no one; this money could be used in case of emergency to repay investors. Therefore, the CDCA strives to maintain The Vida Fund's equity at a level equivalent to 15% of its outstanding portfolio. For example, if The Vida Fund has $45,000 in equity, then the CDCA allows The Vida Fund to lend out $300,000.
2. *Maintaining a loan loss reserve.* In addition to equity, the CDCA keeps a loan loss reserve (which is counted as a liability). Whenever The Vida Fund makes a loan, the US dollar equivalent of 3% of that loan is set aside in a commercial bank. The CDCA cannot touch that reserve money unless there is an emergency or the loan is repaid.
3. *Maintaining sufficient liquidity.* Default is not the only risk a lender faces. If many investments happen to mature around the same date, The Vida Fund might not have enough cash on hand to repay everyone at the same time. Therefore, the CDCA keeps 10% of the fund in commercial bank accounts.
4. *Assuring sufficient assets.* The Vida Fund will never loan more than 70% of full value of the total assets of the project.
5. *In case of co-op dissolution.* Since those investing in The Vida Fund are not investing *directly* in any cooperative, their investments are not at risk due to a co-op failure. In the case of a total dissolution of a partner cooperative, the co-op sells assets to **first pay** *jointly* its debt to The Vida Fund and pay its members the assets they brought to the co-op – i.e. their initial sweat equity. In the very unlikely case that sale of assets does not generate enough capital to repay The Vida Fund loans *and* pay co-op members' investment, then the co-op members will be paid their sweat equity investment first. Any assets remaining after paying all debt will be divided equally among all co-op members.
6. *Lending in US dollars.* The Vida Fund lends to its partner co-ops in US dollars and they repay loans in US dollars. Since the US dollar relatively stable, this practice avoids problems related to rapid inflation.
7. *Paying interest annually.* Interest to investors will be paid by check on an annual basis, lowering the total amount to be paid when the loan comes due.
8. *Carefully selecting partner co-ops.* The Vida Fund works with cooperatives that have been identified as having exceptional market potential and that fit into the overall development scheme of the CDCA, but lack access to the capital to take full advantage of the existing opportunities. Partner co-ops must create a minimum of 10 jobs in the local community.
9. *Diligently monitoring and working with partner co-ops.* On a regular basis, the CDCA meets with the leadership of partner co-ops, reviews financial statements, attends all general meetings and works with the co-ops on budgeting and long-term planning.

We believe these safeguards help to make The Vida Fund a safe and reliable investment opportunity. Still, no investment is completely free of risk. Therefore, we strongly encourage everyone to read the above information on The Vida Fund carefully prior to investing.*

What interest rate does The Vida Fund pay investors? Investors commit a minimum of $5,000 for a minimum of five years at an interest rate of 0-5%. Once you have read the above information, including the statement of risk, send us an email at *jhc@jhc-cdca.org* telling us the investment amount (min. $5,000), the length of time (min. 5 years) and the interest rate (0-5%) that you wish to invest. Then the CDCA will send you an Investment Agreement for you to sign. That Investment Agreement notes the terms and conditions that you stipulated. You sign and return one copy of the Investment Agreement along with a check (made out to the CDCA) for your investment. The day that we receive the check, your investment begins accruing interest. The CDCA will send you an annual report. Final interest and the maturity are paid in full by check on the day the investment reaches maturity. In many cases, investors choose to re-invest upon maturity.

Mail to: CDCA, c/o 352 Carly Ln, Rock Hill, SC 29732

Donations are also accepted for The Vida Fund

You can make a donation **of any size** to The Vida Fund as a charitable gift through the CDCA which is a 501 (c)(3) tax exempt organization.

Online Donations: www.jhc-cdca.org/credit.html

Mail Donation Checks to: CDCA, c/o 352 Carly Ln, Rock Hill, SC 29732

Please Note:** ***The development of the Vida Fund is a work in progress. Knowledgeable attorneys are assisting us in making sure that all agreements meet N.C. lending guidelines. Final wording will be posted as soon as it is available. Meanwhile, this explains the intent and purpose.