



# **SOSTENICA**

**Sustainable Development  
Fund of Nicaragua**

## **P R O S P E C T U S**

Revised October 11, 2010

A Socially Responsible  
Investment Vehicle  
Designed to Promote  
Sustainable Community  
Development in  
Nicaragua

**THE SECURITIES DESCRIBED HEREIN ARE SUBJECT TO A HIGH DEGREE OF RISK. THE PROMISSORY NOTES ARE SUITABLE ONLY FOR AND SHOULD BE CONSIDERED ONLY BY PERSONS WHO UNDERSTAND OR HAVE BEEN ADVISED OF THE NATURE OF SUCH RISK AND WHO CAN AFFORD A TOTAL LOSS OF THEIR INVESTMENT. THIS OFFERING IS SUBJECT TO CERTAIN RISKS DESCRIBED IN THE FOLLOWING PAGES. SEE "RISK FACTORS AND KEY INVESTMENT CONSIDERATIONS".**

### **Fund Management**

Administered in Nicaragua:

**CEPRODEL**

Center for the Promotion of Local  
Development  
Apartado 4793  
Managua, Nicaragua  
Tel: (505) 222-2636

Investments in the United States:

**SOSTENICA, Inc.**

Sustainable Development Fund of  
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## I. Important Notice

Except as otherwise provided herein, no offering literature in any form is authorized to be used in the offering of these Sustainable Development Investment Notes except for this prospectus. No person is authorized to make any representation other than those contained in this prospectus, and if made, such representation must not be relied upon. A registration statement has not been filed with any securities commission and none have passed on the value of these investments or the accuracy of this prospectus.

These Sustainable Development Investment Notes are being offered under a claim for exemption from registration under the self-executing exemption provision of the relevant statute in the following jurisdictions:

<b>Alaska</b>	<b>Connecticut</b>	<b>Delaware</b>
<b>District of Columbia</b>	<b>Florida</b>	<b>Hawaii</b>
<b>Illinois</b>	<b>Maine</b>	<b>Massachusetts</b>
<b>Mississippi</b>	<b>Nebraska</b>	<b>New Hampshire</b>
<b>New Jersey</b>	<b>New Mexico</b>	<b>Rhode Island</b>
<b>South Dakota</b>	<b>Texas</b>	<b>Utah</b>
<b>Vermont</b>	<b>West Virginia</b>	<b>Wyoming</b>

These Sustainable Development Investment Notes are being offered under a claim for exemption from registration under the exempt security provision or the exempt transactions provision of the relevant statute in the following jurisdictions:

<b>Alabama</b>	<b>California</b>	<b>Colorado</b>
<b>Idaho</b>	<b>Indiana</b>	<b>Iowa</b>
<b>Kentucky</b>	<b>Louisiana</b>	<b>Michigan</b>
<b>Minnesota</b>	<b>Montana</b>	<b>Nevada</b>
<b>New York</b>	<b>North Carolina</b>	<b>North Dakota</b>
<b>Oklahoma</b>	<b>South Carolina</b>	<b>Tennessee</b>
<b>Virginia</b>	<b>Washington</b>	

In order to comply with the securities laws and regulations, we are unable to accept investments from persons residing in the following jurisdictions:

<b>Maryland</b>	<b>Ohio</b>	<b>Oregon</b>
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Arizona residents - These investment notes are being offered under a claim for exemption from registration under the Arizona Securities Act, Article 4, Section 44.1843a.6 and 44-1844.44 a.1., and under Section 3(a)(4) of the Securities Act of 1933. A registration statement has not been filed with any securities commission and none have passed on the value of these investments or the accuracy of this prospectus.

Arkansas residents – These investment notes are being offered under a claim for exemption from registration under the Arkansas Securities Act, Subchapter 5. Section 23-42-504(a)(9) and under Section 3(a)(4) of the Securities Act of 1933. A registration statement has not been filed with any securities commission and none have passed on the value of these investments or the accuracy of this prospectus.

Georgia residents – These investment notes are being offered under a claim for exemption from registration under Georgia Code, Title 10, Chapter 5, Georgia Uniform Securities, Article 2. Section 10-5-10(7) and Section 10-5-11(14) and under Section 3(a)(4) of the Securities Act of 1933. A registration statement has not been filed with any securities commission and none have passed on the value of these investments or the accuracy of this prospectus.

Kansas residents - These investment notes are being offered under a claim for exemption from registration under Kansas Uniform Securities Act Section 17-12a201(7) and Section 17-12a202(14) and under Section 3(a)(4) of the Securities Act of 1933. A registration statement has not been filed with any securities commission and none have passed on the value of these investments or the accuracy of this prospectus.

Missouri residents - These investment notes are being offered under a claim for exemption from registration under Missouri Revised Statutes, Chapter 409, Regulation of Securities, section 409.2-201(7) and 409.202(14) and under Section 3(a)(4) of the Securities Act of 1933. A registration statement has not been filed with any securities commission and none have passed on the value of these investments or the accuracy of this prospectus.

Pennsylvania residents – Each person who accepts an offer to purchase securities exempted from registration by section 203(d), directly from the issuer or affiliate of the issuer, shall have the right to withdraw his acceptance without incurring any liability to the seller, underwriter (if any) or any other person within 2 business days from the date of receipt by the issuer of his written binding contract of purchase or, in the case of a transaction in which there is no binding contract of purchase, within 2 business days after he makes the initial payment for the securities being offered. Under Pennsylvania law, this investment cannot be transferred for one year from date of purchase. In addition, the issuer has imposed additional restrictions such that the minimum investment period is two years; the investment is not transferable at all without permission of the issuer; and there is no provision for early withdrawal.

Wisconsin residents - These investment notes are being offered under a claim for exemption from registration under Wisconsin Uniform Securities Law Chapter 551, Subchapter II, Section 551.201 (7) and Section 551.202 (14) and under Section 3(a)(4) of the Securities Act of 1933. A registration statement has not been filed with any securities commission and none have passed on the value of these investments or the accuracy of this prospectus.

## **II. Essential Legal Information**

This prospectus contains essential information about SOSTENICA, Inc. (also referred to as SOSTENICA). Prospective investors should read this prospectus carefully before making any investment decisions. For risk factors and other key investment considerations, please refer to Section III.

This prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, to any person in any jurisdiction in which such offer or solicitation is unauthorized or illegal.

The offering of this investment has not been registered with the Securities and Exchange Commission (SEC) in reliance upon the past practice of the SEC of not enforcing registration requirements of not-for-profit organizations when offering Notes with charitable purpose.

SOSTENICA, Inc. has not registered its securities in every state, and the opportunity to invest may not be available in your state. SOSTENICA, Inc. provides no assurance whether the lack of a filing in a particular state where the Social Investor resides affects the legality of the offering. The Notes are not offered in any state to any person to whom such offer would be unlawful in such state.

The Notes may not be sold, transferred, pledged or otherwise disposed of without the prior written approval of SOSTENICA, Inc. There is no public market for such securities and none will develop in the future.

SOSTENICA, Inc. has not been registered with the Securities and Exchange Commission as an investment company in reliance upon the SEC's past practice of not requiring registration of charitable not-for-profit organizations.

**THIS IS NOT A MUTUAL FUND. IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. NO FEDERAL OR STATE SECURITIES COMMISSION, OR OTHER REGULATORY AUTHORITY, HAS APPROVED OR DISAPPROVED OF THESE SECURITIES HEREBY OFFERED OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

SOSTENICA, Inc. will not accept a loan for use in the Loan Fund from any investor who has not received and read a copy of this prospectus.

### **III. SUMMARY OF OFFERING**

SOSTENICA, Inc., incorporated in 2001, is a federally approved tax-exempt, non-profit 501(c)(3) charitable corporation. SOSTENICA's partner agency, the Centro de Promoción del Desarrollo Local (CEPRODEL), is a Nicaraguan-based, non-profit organization founded in 1989. SOSTENICA promotes sustainable economic development for low-income businesses and small farmers in Nicaragua.

SOSTENICA links social investors in the US with the micro-lending expertise of CEPRODEL. SOSTENICA obtains investments, and these resources are in turn loaned to CEPRODEL, which extends badly needed credit to micro-enterprises (note 1) in order to strengthen local economic sectors, increase employment opportunities, and augment revenues through the expansion of production and sales.

*(note 1) The term "micro-enterprise" is used to refer to businesses with ten or fewer employees. Most of SOSTENICA's loans will fall into this category)*

#### **PROMISSORY NOTE DENOMINATIONS**

Minimum Amount: \$2,000

Maximum Amount: \$250,000 or 10% of the Social Investor's net worth in investments.

#### **PROMISSORY NOTE INTEREST RATES**

SOSTENICA Social Investors may select a rate of interest based on the term of their investment. Interest rates payable to investors vary according to current market interest rates. Because SOSTENICA is a not-for-profit organization, the Internal Revenue Service (IRS) requires SOSTENICA to offer below market interest rates. For the interest rates currently paid by SOSTENICA, Inc, please refer to the Investor Registration Form. For Social Investors who wish to waive their interest in favor of SOSTENICA, we provide that option and regard the income waiver as a donation. The Social Investor would not be entitled to a charitable deduction on the interest income waived. (Please visit our website [www.sostenica.org](http://www.sostenica.org) to view the Investor Registration Form and Disclosures)

#### **INTEREST PAYMENT DATES**

An investor's interest begins to accrue upon receipt of investor's check and Investor Registration Form. Term of loan will begin and issuance of Promissory Note will occur upon the transfer of funds to CEPRODEL, usually within six weeks of receipt of investor's check. If, for any reason, transfer is delayed, SOSTENICA will notify affected investors. Interest is paid annually to investors on the anniversary of the date of transfer of funds to CEPRODEL. For Social Investors who wish to reinvest their interest every year, we provide that option (Please visit our website [www.sostenica.org](http://www.sostenica.org) to view the Investor Registration Form and Disclosures).

## **LOAN MATURITY DATES**

Minimum Maturity: 2 years (24 months - renewable)  
Maximum Maturity: 10 years (120 months - renewable)

## **CREDIT SUPPORT/ EQUITY CAPITAL/ SECURITY**

It is the policy of CEPRODEL to maintain, at all times, a loan loss reserve equal to an amount adequate to cover the percentage of loans which are unrecoverable. In addition SOSTENICA, Inc. and CEPRODEL maintain a combined equity capital share of not less than 15% in the Loan Fund at all times. Should any loan losses occur, these two reserve funds are available to absorb some of those losses and partially protect investor capital within the parameters identified in the Risk sections of this prospectus.

## **REDUCTION OF LOAN PRINCIPAL**

In the event that any losses extend beyond established loan loss reserves and equity capital funds, such losses will be shared equally among all Social Investors by reducing each Social Investor's loan principal in the same proportion that his or her loans bear to the total principal amount of all outstanding Notes.

## **IN EVENT OF DEFAULT**

In the event of default of payment by CEPRODEL to SOSTENICA, the Social Investor shall not require or expect SOSTENICA to foreclose or take legal action to collect funds owed. The Social Investor agrees to forgive SOSTENICA for the unpaid principal and interest, as provided above, without such foreclosure or legal action having been taken.

## **RECOURSE**

The Social Investor's sole and exclusive recourse for payments of loan principal and interest in connection with the Notes will be SOSTENICA's funds held by CEPRODEL, including loan loss reserve and equity, as described above (See CREDIT SUPPORT/EQUITY CAPITAL/SECURITY). Social Investors shall not have recourse against SOSTENICA's directors, officers or its employees.

## **WITHDRAWAL RIGHTS**

There is no provision for early withdrawal of loans to SOSTENICA at this time. All requests for early withdrawal of a loan to the Fund will be reviewed on a case by case basis and will be subject to refusal due to the Fund's liquidity needs. Any early withdrawal of a SOSTENICA loan, which is approved, will be subject to the forfeiture of all accrued interest up to the withdrawal date and a discretionary fee up to 10% of principal for any time or expenses incurred due to the early withdrawal of the funds.

## **PREPAYMENT TERMS**

SOSTENICA may prepay the whole or any part of the loan principal at any time or times without penalty.

## **LOAN REPAYMENT TERMS**

SOSTENICA will notify investors in writing approximately 90 days prior to the expiration of their Promissory Note, informing them of their Note's impending expiration. At the same time, Social Investors will receive a new Investor Registration Form, in the event that the Social Investor wishes to renew or change the terms of his or her investment. 60 days prior to the Note's expiration, if no communication has occurred, or if the Social Investor has notified SOSTENICA that they would like their principal returned, SOSTENICA will notify CEPRODEL that the principal is due. SOSTENICA will mail principal checks to investors not more than 15 days after the expiration of their Note. For Social Investors who wish to renew their investment on the same terms automatically for an additional two year term, we provide that option (Please visit our website [www.sostenica.org](http://www.sostenica.org) to view the Investor Registration Form).

## **IV. RISK FACTORS AND KEY INVESTMENT CONSIDERATIONS**

THESE INVESTMENTS INVOLVE A HIGH DEGREE OF RISK. INVESTORS SHOULD BE ABLE TO BEAR THE COMPLETE LOSS OF THEIR INVESTMENT. CAREFULLY CONSIDER THE FOLLOWING FACTORS, AMONG OTHERS, BEFORE INVESTING:

### **Borrowers may be inexperienced and operate in a volatile economic environment.**

Many Nicaraguan loan recipients (borrowers) are relatively inexperienced in financial management, or are engaged in intrinsically high-risk ventures. (A "high risk venture" includes such things as lending to rural campesino families with little experience handling credit.) While CEPRODEL provides many borrowers with technical assistance and training or refers them to other agencies, this advice does not eliminate all risks to investors. In addition, factors beyond the borrowers' control, such as erratic climate conditions, volcanic eruptions, epidemics, changes in market prices, political and social unrest pose risk to some borrowers' projects.

**Borrowers may be undercollateralized.**

Individual SOSTENICA loans in Nicaragua are secured by collateral (equipment, real estate, etc.) as well as by a second signature of an independent person. However, given the fluctuating market conditions, some loans may not be fully collateralized. This may limit the ability of the Fund to collect the full amount due from its borrowers and could result in losses to the investor.

**The Nicaraguan economic environment has been very volatile.**

Changes in both international and national economic policies, conditions and markets, over which neither the Fund nor its borrowers have any control, impact the viability of the borrowers' business projects and thus repayment of loans to SOSTENICA.

**The Fund is administered in Nicaragua by CEPRODEL not by SOSTENICA, INC.**

CEPRODEL has complete autonomy over the day-to-day operations of the Fund, within the parameters agreed upon in the contract and annual addendum (Please visit our website [www.sostenica.org](http://www.sostenica.org) to view the contract and the most recent addendum). The ability of investors to receive back the full value of their principal invested is determined by CEPRODEL administrative decisions in Nicaragua.

**There is no banking insurance in Nicaragua.**

Investment funds in transit are received initially by SOSTENICA, and maintained in a separate corporate account at the Wells Fargo/Wachovia Bank. Funds held in this account are federally insured up to \$250,000 by the US government. Monthly, investment funds are transferred by wire from Wells Fargo/Wachovia Bank to Nicaragua where they are deposited into CEPRODEL's bank account at Bancentro, ready to be lent to approved Nicaraguan borrowers. There is no banking insurance in Nicaragua comparable to that in the US. Funds in transit and reserves held in Nicaragua are at risk in case of bank failure.

**There is no guarantee that the loan loss reserve maintained by CEPRODEL will be adequate to cover all potential defaults.**

CEPRODEL maintains a loan loss reserve calculated to cover possible loan losses based on past performance. However, there is no guarantee that these funds will be sufficient to cover all potential defaults in the future.

**The investments and loans may not improve the lives of the poor.**

Although SOSTENICA is intended to bring about economic development among the poor in Nicaragua, there is no way to predict the extent to which the project will in fact impact the poor, either in regard to individuals or to sectors of the population. It is possible that SOSTENICA's infusion of capital may create economic inequalities, or have other negative or mixed effects on the region.

**There is no secondary market for these securities.**

Potential investors should understand that there is no secondary market for the Fund Promissory Notes, and thus they are not transferable, without prior written approval by SOSTENICA. This makes the Notes extremely illiquid.

**The Promissory Notes issued to investors represent unsecured debt.**

The Promissory Notes represent unsecured debt. The obligations of the Fund under the Promissory Notes are not secured by any collateral available to the investor.

**These securities are not registered with any federal agency nor with most state agencies.**

- SOSTENICA relies upon past practice of the Securities and Exchange Commission with regard to not-for-profit organizations. Changes in the treatment of such organizations under the federal or related state tax laws, or the failure of SOSTENICA to continue to satisfy the present requirements of the tax laws, may be interpreted as a failure to satisfy the requirements of the securities laws exemptions. There is no assurance that SOSTENICA or the Fund could meet its compliance burdens under these laws if such circumstances occur.
- SOSTENICA, Inc. which is providing this “debt offering,” has not registered with the SEC based upon past practices towards not-for-profit organizations.
- Since this is not a mutual fund, protections normally afforded by federal securities rules may not be available to investors.

**The SOSTENICA Board and Staff are not professionals trained in managing a community development loan fund.**

This lack of training increases the risk that investors may not receive the full value of the principal invested and interest due.

**All financial resources of SOSTENICA are held in Nicaragua and controlled by CEPRODEL.**

There is no guarantee that CEPRODEL will transfer money owed to investors in a complete and timely manner.

**The Social Investor Agrees to Forgive Principal and Interest In the Event of a Default By CEPRODEL**

In the event of default of payment by CEPRODEL to SOSTENICA, the Social Investor shall not require or expect SOSTENICA to foreclose or take legal action to collect funds owed. SOSTENICA does not administer SOSTENICA operations with borrowers in Nicaragua, which fact decreases SOSTENICA 's control and increases risk to the Social Investor (Please visit our website [www.sostenica.org](http://www.sostenica.org) to view the Investor Registration Form and Disclosures).

**Changes in currency exchange rates may impact the Fund's ability to repay investors.**

While SOSTENICA makes provision for devaluation of the Cordoba (maintenance of value provisions), there is no guarantee that these provisions will be adequate to cover all losses in the future.

## **V. SOSTENICA OVERVIEW**

### **THE NAME**

The name SOSTENICA derives from Spanish. It joins "Soste," taken from the Spanish word "sostenible" ("sustainable" in English) with Nica, an abbreviation of Nicaragua. The country name Nicaragua is itself a derivative of the Nicarao people, one of the dominant indigenous communities in Central America at the time of the Spanish conquest around 1500.

### **THE MISSION**

SOSTENICA promotes sustainable economic and community development. Its loan programs are designed to strengthen Nicaraguan communities. It attempts to assure that the Nicaraguan culture and way of life have a sustainable future despite the homogenizing pressures of the integrated global economy. SOSTENICA offers socially conscious investors in the US an opportunity to use financial resources constructively, to preserve their capital within the parameters of the risks identified in this prospectus, and earn interest while having a positive impact on a struggling Third World economy. At the same time, SOSTENICA affords the productive poor of Nicaragua -- small farmers and micro-enterprises -- access to credit that would be otherwise unavailable. The combination of thoughtful First World investment and careful socially conscious lending to the poorest creditworthy borrowers of Nicaragua creates an opportunity for sustainable growth.

## **THE PROBLEM**

Three central problems plague Nicaragua's economy. The first is capital flight. Less than 10% of Nicaragua's population earns more than what is needed to live above the subsistence level. Of those few who do have adequate resources, many choose to shelter their money from the vagaries of the local economy by maintaining investments and savings accounts overseas. As a result, rather than accumulating, capital disappears from Nicaragua's economy, making credit scarce and expensive. Without available credit, small farmers and entrepreneurs find it impossible to expand their production.

A second difficulty is foreign debt. Nicaragua has one of the world's highest per capita debts. When a nation owes large sums to foreign governments or lenders, an excessively high proportion of the country's income serves to pay the interest and principal on that debt. Under these circumstances, national investment in social progress and economic development for the poor gets reduced, while the economy directs its energy to developing its hard currency export sectors in the hope of generating revenues necessary for debt service. Once again, under these adverse circumstances, credit for small producers becomes scarce and costly. High interest rates stifle growth while many small businesses and farmers cannot get loans at any price.

Finally, for hundreds of years, Nicaragua's economy has depended on the production and sale of cash crops. International commodities' prices vary according to supply and demand. However a predictable trend has emerged through the decades. The cost of production goes steadily up while the revenues from sales remain constant, or even decline. Except during extraordinary times, this economic dependency on international export leads to hardship for the majority of Nicaraguans. Without credit and the ability to produce for local consumption, many Nicaraguans suffer from influences beyond their control.

## **SOSTENICA - A SOLUTION**

A capital-starved economy cannot grow. Only those with access to resources can take advantage of opportunities. Without intervention, current conditions in Nicaragua will make it possible for the rich to increase their resources while leaving the poor without much opportunity to utilize their creative energy and potential. By enabling First World investment in the productive lives of poor Nicaraguan producers, SOSTENICA undertakes to reverse some of the damaging effects of capital flight.

By making micro-, small and medium loans (note 2) available at rates below, or even comparable to, those available from commercial lending institutions, SOSTENICA strengthens the growth of the sector that most often suffers neglect. Secondly, because the Fund operates from within the NGO (non-governmental organization) sector, SOSTENICA can target populations and economic activities destined to strengthen local economies and culture rather than contribute to an export-oriented economy. A heavy emphasis on sustainable development leads the Fund to direct credit to those sectors of the Nicaraguan economy that will not pollute, do not increase dependency on imported goods, will strengthen local food self-sufficiency, and can respond to local needs. (note 3)

*(note 2) "micro-loans" typically range from \$100 to \$1,000US. "Small" refers to those loans larger than \$1,000 but smaller than \$5,000. A "medium" loan is larger than \$5,000 but smaller than \$20,000. CEPRODEL loans do not exceed \$20,000.)*

*(note 3) These criteria are priority areas for the Fund's lending, not mandatory requirements for all borrowers.*

## **THE PARTNERSHIP**

SOSTENICA, Inc. works collaboratively with CEPRODEL. The Centro de Promoción del Desarrollo Local (CEPRODEL), which in English means the Center for the Promotion of Local Development, was founded in 1989. SOSTENICA's founder, began working with CEPRODEL to promote economic development through micro-lending in 1993. Working as partners, the two organizations share administrative responsibilities. SOSTENICA provides services directly to individual and institutional investors in the US while CEPRODEL oversees the issuance of credit and monitors loans to Nicaraguan borrowers.

Both CEPRODEL and SOSTENICA are major investors in the Fund, which maintains a minimum of 15% equity capital at all times. These capital reserves serve as indication of the parent organizations' confidence in the Fund and as a partial protection to investors.

## **SOSTENICA, INC.**

SOSTENICA, Inc. promotes economic and community development in many regions of Nicaragua through credit, technical assistance and outreach to low income businesses and small farm families. SOSTENICA is a federally approved non-profit under the 501(c)(3) provision of the IRS. In addition to the extension of loans to credit-worthy low income applicants, SOSTENICA promotes sustainable agriculture by working with farmers and University extensionists teaching organic agriculture, integrated pest management, soil conservation, reforestation and ecologically sustainable practices. We began testing the model of economic development in 1990. Our earliest trial of micro-credit began with a women's weaving collective. The Farabundo Martí y Sandino weaving cooperative had closed for lack of credit. Upon witnessing the dramatic benefits of infusing a small amount of capital into a viable enterprise, (increased employment, income, dignity, self-esteem). We invited like-minded individuals to participate in a larger experiment of economic development through micro-lending, which a decade later grew to become SOSTENICA, Inc.

## **CEPRODEL**

The Center for the Promotion of Local Development (CEPRODEL) promotes sustainable local development by affording greater economic, organizational and technological options to the most vulnerable sectors of Nicaragua's population. CEPRODEL works to assist Nicaragua's poor to rise above poverty through the realization of their own creative potential. CEPRODEL's objectives are: (1) to contribute to the transformation of families' survival strategies from bare subsistence to a self-guided productive economy; (2) to support communities and poor families as they seek to improve their housing, social services, income and work opportunities; and (3) to promote self-respect and dignity among poor Nicaraguan families.

CEPRODEL is a registered Nicaraguan non-profit, non-governmental organization (NGO). According to its founding principles, CEPRODEL will only engage in specific development programs if they meet five key criteria: economic efficiency, technological appropriateness, ecological sensitivity, social justice, cultural acceptability.

In addition to managing a credit portfolio, CEPRODEL offers municipal consulting activities as well as low-income housing construction programs. These services are managed independently of its credit division.

## **VI. SOSTENICA HISTORY**

Preparations for the founding of SOSTENICA began in 1989 when the Nicaraguan economy slipped from recession into wide-spread depression. After more than 15 years of civil strife and war, Nicaragua's battered economy had ceased to meet the most basic needs of the country's rapidly growing population. CEPRODEL, founded in that year, began taking steps to support and promote economic and community development in and around Managua.

In 1990 a trial micro-loan of \$500 went to the "Cooperativa Farabundo Martí y Sandino" as an experiment in small-scale economic development. This women's weaving cooperative, begun in 1984, had become inactive in 1988 due to lack of working capital needed to buy yarn. The founders of SOSTENICA hypothesized that, through a modest loan and limited technical assistance, a group of skilled weavers might overcome the many obstacles facing producers throughout Nicaragua.

The results were impressive. Within six months, the Cooperative had set up six looms for full-time production, paid modest but livable wages to its six members, repaid its first loan, and accumulated enough capital to reinvest. In 1997, this weaving cooperative received its eighth and final loan of \$1,700. Many of these same women, as well as a new generation of weavers continue to work producing woven products more than two decades after they received their first loan from SOSTENICA.

The success of this worker-owned, all women's business encouraged the founder SOSTENICA to expand this initial experiment. In 1992, private individuals invested a total of \$75,000 to create a larger credit program in León, Nicaragua. Two funds were set in motion: the first aimed at medium-sized producers, the second, a micro-loan fund, aimed at micro-entrepreneurs. Joining individual investors, the Agencia Española de Cooperación Internacional, the Spanish government development agency, contributed \$20,000 in matching dollars to the effort. The US and Spanish partners conducted an extensive survey of Nicaraguan non-profits, and chose CEPRODEL in 1993 as the micro-loan fund administrator. León City Hall joined in this experiment towards municipal economic development. The Río Chiquito micro-loan fund, SOSTENICA's precursor, was born.

In order to contribute to community development, the Río Chiquito Fund opted to concentrate the program's resources and energy in a single neighborhood. Banks and other lenders had historically avoided León's Río Chiquito, being the poorest neighborhood in the city. In a neighborhood with extreme unemployment, banks preferred to stay away, even though the demand for credit remained high.

Believing that responsible lending to credit-worthy low-income small businesses is an important means of generating employment, increasing income, and strengthening community, the Río Chiquito micro-loan fund focused its efforts on improving the economy of this one area of the city. In its first 33 months, the Río Chiquito Fund extended 974 loans, worth a total of \$335,653. (note 4)

*(note 4) This financial and statistical information, as well as that included in the charts which follow, is based on CEPRODEL's unaudited reports pertaining to the period of lending in León from 1993 to 1997.*

Economic Sector	Number of Loans	Amount Loaned	Average Loan Size	Average Term of Repayment
Production (note 5)	358	\$108,592	\$297	5 months
Commerce	529	\$180,034	\$338	4 months
Service	62	\$ 22,470	\$359	8 months
Loan Circles	25	\$ 24,557	\$982	4 months

*(note 5) The term "production" is used here to refer to the making or growing of things, be they shoes, tortillas, or corn. It is to be distinguished from "commerce" which is the resale of goods made by someone else, or "service" where no new goods are created. "Loan circles" applies to a type of loan where several borrowers sign on a single shared loan. The loan circle methodology could be applied to any economic sector, although most commonly it falls under*

Total US\$ Lent During first 33 months	\$335,653
Total Number of Loans Made	974
Average Loan Size	\$345
Average Term of Loan	5 months
Percentage of Women Borrowers	82%

By the end of 1995, results of the Río Chiquito micro-lending experiment were so impressive CEPRODEL agreed to expand into four other neighborhoods of León in which many low-income families reside: Guadalupe; Rigoberto López Pérez; Emir Cabezas and Residencial Guadalupe. Statistics indicate that, even though the nation as a whole remained in deep recession, borrower employment, production levels and general business revenues all increased significantly during these years. (note 6)

*(note 6) In an unaudited 1997 "Social Impact Report" CEPRODEL estimated that approximately 700 jobs had been created as a result of loans made in León between 1993 and 1997. The same report finds that from 1996 to 1997 borrower sales increased by more than 120% while their profits rose by roughly 175% for the same period.*

Having demonstrated the positive impact of the program on a single women-owned cooperative, the model grew to include an entire neighborhood of one city. Once the success of the neighborhood model had been demonstrated and management mechanisms established, the program grew to include numerous neighborhoods within the same municipality. In 1998 a third and final phase of the experimental program began. The model credit program, which today is known as SOSTENICA, expanded to include rural loans as well as the established micro-loans in urban sectors. In addition, new towns and villages throughout northwestern Nicaragua joined the program. For three years, this phase of the experiment tested the impact and the success of rural lending and lending in communities less urban than León. From 1998 through 2000 a total of 1,143 loans were issued. Total loans, worth just under \$1,000,000, helped to expand opportunities for low income producers and vendors. 59% (694) of the loans went to women-run businesses. 15% (176) were rural loans to small farm families or campesino run agricultural cooperatives. By the end of 2000 the active portfolio in Nicaragua was over \$357,000. Measurable impact included growth in borrower family household income and job creation and retention.

Based on this extensive period of trial lending, SOSTENICA, Inc. was formally constituted as a not-for-profit corporation dedicated to expanding economic opportunities for the hard working poor of Nicaragua, using funds donated and invested by individual and institutional social investors.

In the two years 2001-2002, SOSTENICA, through CEPRODEL, made a total of 1,569 new loans to Nicaraguans, worth more than \$1.6 million dollars. 64% of those loans (1,006) went to women, 35% to men, and 1% (valued at \$130,622) went to cooperatives. Recognizing that low-income housing is scarce in Nicaragua, and mortgage assistance for home buyers even more so, SosteNica assisted 62 families with the purchase of new homes. These small but sturdy homes cost, on average, less than \$5,000 each. Less than 19% of the total dollars lent went to the commercial sector.

This marks a significant decrease from previous years, as SOSTENICA has shifted its focus towards increasing support for the productive sectors, while continuing to provide services for those in the commercial resale sector of the economy. Another dramatic shift for SosteNica during these two years was its increased support for the Nicaraguan rural economy. Small loans to small farmer families totaled \$650,204 in two years, representing 40% of the total amount loaned. 506 farmers received loans relating to crops, while an additional 26 farmers received loans to assist with livestock production.

Beginning in 2002, SOSTENICA took a bold step towards contributing, not only to the personal economies of its borrowers, but to the local economy and environment as well. Joined by the UNAN (the National Autonomous University of Nicaragua) and their department of Agro-ecology, SOSTENICA set out to serve hundreds of rural families.

Our “Nicaraguan Agricultural Conversion Program” combines the tool of credit with state-of-the-art technical assistance in the area of sustainable agriculture.

By helping farmers step away from chemical dependent, mono-cropping towards a more diverse production scheme using organic and sustainable agricultural technologies, SOSTENICA promotes a healthier rural environment and contributes to a more vibrant local economy. SOSTENICA provides extensive training and ongoing technical assistance to many of our rural borrower. They learn about new approaches to soil fertility and pest management, as well as how to access local and regional markets to sell their new produce. A trial sample of just over 60 families demonstrated the dramatic potential of this approach of rural lending. Between December, 2002 and November, 2006 SOSTENICA has sent \$1,132,437 to Nicaragua to be used to for credit to benefit rural farm families. In that same time period SOSTENICA has spent \$119,761 providing technical assistance to rural borrowers

SOSTENICA trains CEPRODEL staff, in part, by sending them to week-long Agro-Ecology seminars offered at Las Cañadas in Huatusco, México. Beginning in 2009 an innovative program of Rural Sustainable Development grew out of this training. Within the first two years, 35 families had chosen to participate in an experimental model. With the help of CEPRODEL and SOSTENICA, they had planted 2,822 new fruit trees, 3,050 plantain plants, and 14,050 native hardwood trees. At any given time, the revolving loan program has more than 10,000 micro-loans serving Nicaraguan low-income producers.

## VII. STRUCTURE AND PROCEDURES

SOSTENICA has dedicated staff members in the US, who provide all investor services, as well as having a Sustainable Development Coordinator living and working in Nicaragua. US staff members monitor the Fund to determine compliance with established standards for accounting and management of investment portfolios.

The SOSTENICA, Inc. Board of Directors provides financial oversight. The Board reviews SOSTENICA's financial reports and evaluates the Fund's achievement of social goals. It also revises social policies annually, in conjunction with CEPRODEL and SOSTENICA staff in both countries, to see that the Fund stays within its mission. SOSTENICA staff members prepare all legal documents and process loans from investors. All investor transactions are in U.S. dollars and in English. 100% of all investments go to Nicaragua where CEPRODEL receives and administers them.

In Nicaragua, CEPRODEL conducts needs assessments and convenes periodic borrower workshops to familiarize potential borrowers with the Fund. Nicaraguan borrowers, two-thirds of whom are women, repay their loans in installments at agreed upon intervals. Urban-based micro-loans (\$100-\$1,000) have weekly repayment installments with final repayment due at the end of four to six months. The repayment schedule of small and medium loans, as well as of agricultural loans, depends upon the nature of the productive enterprise. Typically, loans made in these sectors range from \$1,000 to \$10,000. However there is no ceiling on the maximum loan which can be made to any single borrower. The Nicaraguan federal government regulates interest rates charged to SOSTENICA borrowers. SOSTENICA remains in compliance with all laws and regulations governing micro-credit.

On a monthly basis, CEPRODEL provides SOSTENICA with a complete portfolio analysis, an income and expense report, a cash flow statement, and a monthly balance sheet. Quarterly, CEPRODEL provides information about the Fund's achievement of social goals as well as detailed information on each loan active in the period.

CEPRODEL transfers interest payments as well as investment capital due to SOSTENICA monthly. The US-based SOSTENICA staff sends out interest checks to investors annually. Periodic newsletters share recent information about SOSTENICA with investors and other interested persons. To date, CEPRODEL has not missed any payments of interest or principal on the lending projects it has done in conjunction with SOSTENICA and SOSTENICA has not missed any payments of principal or interest to its investors in these projects.

## **VIII. TERMS OF INVESTMENT**

The management of SOSTENICA anticipates that Social Investors to the Fund will include individuals, religious groups, foundations, institutions and corporations. SOSTENICA in turn lends the total principal directly to CEPRODEL for use by eligible borrowers within Nicaragua.

The Notes are being offered only by SOSTENICA, Inc. Other than salaries paid to SOSTENICA staff, no person will receive a fee for the solicitation of the Notes. No registered broker-dealer has sold or will be given the authority to sell these Notes. A loan to SOSTENICA, Inc. is evidenced with a Promissory Note and an Investor Registration Form. Interest payment dates for the Notes are annual and specified on each Promissory Note. Please note that the Promissory Note terms may vary slightly from state to state as required by state law (For Social Investors who wish to reinvest their interest every year, we provide that option. Please visit our website [www.sostenica.org](http://www.sostenica.org) to view the Investor Registration Form and Disclosures).

### **INTEREST**

Because SOSTENICA is a 501(c)(3) non-profit organization, the IRS requires SOSTENICA to offer below market interest rates. Therefore the interest rates of future Notes may vary from rates currently offered in order to remain in conformity with IRS guidelines. Interest rates are reviewed and adjusted quarterly.

The rate represents simple interest calculated on an annual basis on the unpaid balance of the Note. SOSTENICA accepts fixed rate loans only. SOSTENICA encourages its prospective social investors to consider the Fund's charitable purposes in deciding the terms of their loan. (For Social Investors who wish to waive their interest in favor of SosteNica, we provide that option and regard the income waiver as a donation. The Social Investor would not be entitled to a charitable deduction on the interest income waived. Please visit our website [www.sostenica.org](http://www.sostenica.org) to view the Investor Registration Form and Disclosures)

## **IX. TAX CONSIDERATIONS**

The purchase of a Promissory Note is an investment, not a donation to a charitable organization. No amount paid for the purchase of a Note is deductible for federal income tax purposes. Interest earned from SOSTENICA is considered taxable income, unless the Social Investor is tax exempt. For loans in excess of \$250,000, please consult your tax advisor about the imputed interest provisions of the Internal Revenue Code of 1986, as amended (in particular, Code section 7872).

## **X. BOARD OF DIRECTORS AND KEY STAFF**

### **SOSTENICA, INC. STAFF**

Christopher Bell – Fund Administrator

has been the fund administrator for SOSTENICA since 1997. Mr. Bell attended the University of Kansas. He has spent many years in the trade union movement as well as working in the wholesale and retail industries.

Jay Pressman – General Counsel

graduated from the University of Pennsylvania with a B.A. in psychology in 1980 and from Villanova Law School with a J.D. in 1983. Since then, Attorney Pressman has been engaged in the general practice of law, in Chester County, Pennsylvania. He joined the Board of SosteNica in 2001 and left the Board to join the staff in 2006.

Rachel Lindsay – Sustainable Development Coordinator

graduated from Wesleyan University with a degree in anthropology. She was awarded the Fulbright Fellowship to study in Nicaragua and joined the staff of SOSTENICA in 2010.

### **SOSTENICA, INC. BOARD OF DIRECTORS**

Cristina Combee

is a graduate of the University of South Florida. Currently, the V.P. of the West Chester Rotary, Cristina is the publisher/editor of the Northern Edition of the Chester County Women's Journal.

Larry Comstock -- Treasurer

specializes in raising capital for alternative and international investment strategies, primarily college endowments and foundations. He began his career with Morgan Stanley, where he spent twelve years in their international and institutional equity departments around the world. He is a graduate of Brown University and has an M.B.A. from the Tuck School at Dartmouth. He serves on the Advisory Council of MicroVest, L.P.

Elizabeth Gibbs -- Secretary

is a graduate of Wheaton College. She is a former City Counsel Woman of Norwalk, CT where she was also City Clerk. Ms. Gibbs has been a long time grant writer for Norwalk Community College and is currently serving on the Board of Directors for the Norwalk/Nagarote Sister City Project and the Norwalk Maritime Aquarium.

Peter Guarino -- Vice President

has a Ph.D. in biostatistics from the University of London and a Masters degree in infectious disease epidemiology from Yale University. For over ten years, he has worked in public health and conducted clinical research studying treatments for a variety of infectious and chronic diseases. Dr. Guarino has also worked as a volunteer for various development projects in the U.S. and the Dominican Republic.

Owen Owens

has a PhD in Sociology of Religion from UC Berkeley. He is an ordained minister and the author of several books. He has been active in Native American affairs as well as issues relating to ecology and justice for many years.

Alan Wright -- President

is the founder of SOSTENICA. Dr. Wright received his PhD from Yale University. For twenty-five years, Dr. Wright has worked for social and economic justice in Nicaragua. For that work, he has been recognized by the W.L.P.F. and was awarded the Gandhi Peace Medal by Promoting Enduring Peace. He lived and worked in Nicaragua from 1990 through 1995. During that time he served on the Regional Loan Committee of CEPAD, and began to organize experimental micro-lending enterprises. He and his wife Paula Kline have two adult children.

Michael Zeman

is the Minister of the Talmadge Hill Community Church in Darien, CT and a practicing psychoanalyst. Rev. Zeman began his career in 1973 working in a remote village in Northern Kenya where he first wrestled with the challenges of sustainable development. Since that time, as a teacher, minister, therapist and community builder, he has maintained a strong commitment to helping the underprivileged. He and his wife, Mary have two adult children.

## **CEPRODEL**

For information about the Board and Staff of CEPRODEL, please visit the SosteNica website at [www.sostenica.org](http://www.sostenica.org)

## **XI. Introductory Notes to Financial Statements**

Included are current reports for SOSTENICA, Inc. and CEPRODEL. For complete copies of CEPRODEL's Spanish language audited reports, as well as those for SOSTENICA, Inc. and for tax documents and other financial reports, please visit our website at [www.sostenica.com](http://www.sostenica.com). For additional tax and financial information, please visit [www.mixmarket.com](http://www.mixmarket.com) and [www.guidestar.com](http://www.guidestar.com).