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Small Business Insights

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Prisma MicroFinance's small loans offer chance for those with few resources to start a business

Carol Tice Staff Writer

In 1994, David Satterthwaite graduated from Haverford College and took a little bus trip - from Boston to Nicaragua.

Accompanied by a Spanish-speaking friend, a few personal belongings and \$6,000 in savings, Satterthwaite spent several years living in village homes, while sleeping four to a room with other family members. This adventure was the beginning of the company he now heads, Prisma MicroFinance, a Seattle-based, for-profit microlender that makes loans in Nicaragua.

The company - which has eight loan officers based in an office in Managua, Nicaragua - has grown from an initial investment of \$1,000, put up by Satterthwaite and his co-founder, to nearly \$900,000 in assets and dozens of investors.



Cover of the printed version

Prisma raised \$600,000 in its first round of funding last year.

The company's default rate is less than 1 percent, and it has about \$1 million in loans outstanding. Satterthwaite plans a second, \$1.5 million investor round this summer, to fund the opening of additional Prisma offices in other Central American countries.

Satterthwaite was drawn to Nicaragua because he had studied that country's feminist movement in school. He had also studied the relationship of private-property ownership to democracy, and had become convinced that a crucial factor in successfully exporting democracy was for the masses to own property.

This, in turn, drew him to the idea of microlending. This banking approach of lending very small amounts - a few hundred dollars, in some instances - is a popular method of giving people with few resources a leg up to start or build their own businesses.

After interviewing more than 20 people who had experience in microlending in Nicaragua, Satterthwaite convinced 50-year-old Roger Aburto to be his partner. At the time, Satterthwaite was just 25.

They made three small initial loans, the first to help start a barrio-based community bank in Nicaragua run by 11 local women. While living in Nicaragua, Satterthwaite got a job at a nonprofit, Bridges to Community, and Aburto kept his job at a local nonprofit microlender.

Their breakthrough came when their first outside investor, Bridges board member George Kraus, put \$4,000 into the company on a handshake.

"That was a defining moment for us," Satterthwaite said. "He sent that money in good faith because we had an opportunity to give out some loans, and he said, 'We'll do the paperwork later.' "

In Nicaragua, Satterthwaite grew disenchanted with the nonprofit structure of most microlenders, who amassed their funds by asking for donations.

"The idea of me explaining to you how to run your business when I don't have a bottom line is ridiculous," he said.

He also thought that nonprofits, with their usually tiny budgets, were ill-equipped to tackle the vast social problems microlending seeks to address.

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"Why be for-profit?" he said. "To make it viable. International microfinance has the capacity to bring private investment capital to bear on the problem of world poverty."

Operating as a for-profit business also gives Satterthwaite freedom to make slightly larger loans to people whose poverty is a bit less dire. Nonprofit microlenders focus only on the poorest of the poor, he said. But Prisma can loan \$4,000 for a cabdriver to own his own cab - a change-in-life circumstance that Satterthwaite said can easily vault a family of six into the middle class in Nicaragua.

Investors in Prisma now include prominent venture capitalist Richard Burns of Charles River Ventures in Boston, and his son, Ethan Burns.

"It's something both my father and I believe in very strongly, that social mission and financial return can go hand in hand," the younger Burns said. "We're talking about ice cream vendors who are able to hire other vendors, or build their own shop. The social mission in this case is extraordinarily worthwhile - and we're actually going to get our money back."

So far, Prisma has been able to pay interest on investors' funds that has ranged as high as 15 percent, depending on the size of an investor's contribution. It's a return that is looking more attractive to investors now that the stock market's outlook is more uncertain, he said.

Satterthwaite visits the Managua office four times a year. He spends the rest of his time in a small office in the Denny Regrade, where he is hosted by a local nonprofit. His days are spent consulting by phone and e-mail with his staff, and trying to seek new investors in the United States.

The key to managing his far-flung business, Satterthwaite said, is his trust in his partner, Aburto. Most of the staff have been with the company for four years or more. All are experienced in microlending.

"Roger has eight years of experience," he said. "I let him make operations decisions."

Originally structured as a co-op, similar to Recreational Equipment Inc., the company saw its growth hit a wall in 1998. The only members then were the cash-strapped Nicaraguans who had taken out loans from Prisma - and who could only pay them back a little at a time. Soon, there were far more loans outstanding than funds in the bank.

The company's debt-to-equity ratio had ballooned to 13-1. Satterthwaite said the struggle to convince the Nicaraguans that it would be better to become a public company with American investors as the toughest selling job he's done at Prisma.

But when the company restructured in 1998, new investors brought more capital that allowed the business to grow again. Last year, the company made more than 200 loans and ended the year with \$855,000 in assets.

In two years, Satterthwaite hopes to open the company's first branch office.

"It's so unbelievable what a big difference these small amounts of money can make," he said. "We have massive social problems, and so far the groups we've built to address them are teeny."

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