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# MICROFINANCE IN THE AGENDA OF THE SPANISH PUBLIC COOPERATION FOR DEVELOPMENT\*

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## KEY WORDS

*Microfinance cooperation; Strategic and policy framework; Inclusive Financial Systems; Social development.*

## ABSTRACT

*Microfinance has been an important part of the Spanish official cooperation agenda. Starting from this point, the article makes a critical review on the evolution of this topic, pointing out those areas that required further attention, changes aroused in the regulatory framework, as well as some reflections on the future of microfinance cooperation.*

## The singling out of micro-financial cooperation

At the end of 1998, by Article 105 of Law 50/1998 of the 30<sup>th</sup> of December, which referred to *Fiscal, Administrative and Social Order*<sup>1</sup>, the Fund for microcredit for basic social development projects abroad (FCM) is created, and is defined as “[...] a financial instrument whereby the government can use funds to provide microcredit in order to improve the living conditions of vulnerable groups and to implement projects for basic social development [...]”. “Previously, in Article 28.1 of Law 23/1998 of the 7<sup>th</sup> of July on

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1. [<http://www.boe.es/boe/dias/1998/12/31/pdfs/A44412-44495.pdf>]

*International Cooperation for Development*<sup>2</sup> it was established that the Ministry of Foreign Affairs and Cooperation would manage the “budget allocations aimed at providing microcredit and revolving credit in order to improve the living conditions of vulnerable groups and to implement projects for basic social development”.

These rules which constitute law, introduce two significant contributions in the Spanish Public Cooperation for Development (CPED):

- The first one, by creating an instrument which is refundable where its main purpose will be the exclusive issue of cooperation for development<sup>3</sup>.
- The second one, the fact that it places this instrument –designed for having a continuity- in the field of finance.

This new situation should have inspired a thought and demanded a reflection, even before the creation of the FCM. This would have resulted in a better understanding of the role that microfinance would have played in the CPED, and would have given us guidelines for action. But this strategic clarification process which we would have desired, and which could have originated from the good practices already established by major international donors who were active in microfinance<sup>4</sup>, just did not take place, or if it did, it didn't count with the magnitude and the quality that we would have desired.

### **Some limitations for the existence of an effective strategy for microfinance Spanish cooperation**

There are several causes that limited the strategic thinking on Spanish cooperation for development. Some of the ones which should be highlighted are:

- The erroneous wording used after the laws created by the FCM. They used the word “microcredit” when they should have used the word “microfinance”. By using “microcredit”, people were not paying enough

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2. [<http://www.boe.es/boe/dias/1998/07/08/pdfs/A22755-22765.pdf>]

3. Article 104 of Law 50/1998 reads that the Fund for Assistance of Development (FAD), which up until then was the only official component for refundable development assistance (ODA) intends “[...] to promote economic and trade relations with developing countries”.

4. For example, the Consultative Group to Assist the Poorest (CGAP) [[www.cgap.org](http://www.cgap.org)], a consortium sponsored by the World Bank with members of the main bilateral cooperation agencies and multilateral agencies involved in microfinance, was established in 1995. Later on, the consortium was renamed as the Consultative Group to Assist the Poor, yet retaining the same acronym. (CGAP in Spanish is commonly called the Consultative Group to Assist the Poor.) The Spanish Agency for International Cooperation for Development (AECID) maintained relations with the CGAP since 2001, and joined formally in 2005.

attention to other financial services such as micro insurances, micro leasing and, more importantly, micro deposits, which were all also used by the same groups of people being served by micro credits. Now, we have to wait until the Master Plan for Spanish Cooperation 2005-2008 displays the correct term “microfinance” as opposed to “microcredit”<sup>5</sup>.

- The lack of real communication in between the team that managed the FCM and the AECID. Given their specialised work, the latter would have been more familiarized with good micro-finance practices. The same would apply to the people who managed the departments for microfinance activities or with microfinance components in CPED. All this happened within the AECID, and the same thing happened when it came to cooperation for development when managed by the rest of the Central Government and, more importantly —given its magnitude— when managed by autonomous communities and municipalities.

One explanation for this may be found in the different approach that is being taken by managers that look after repayable cooperation —the FCM tended to be considered in its whole as refundable cooperation because over 95% of its resources are allocated to loans, compared to the non-refundable; the relative invisibility of much of the microfinance cooperation-embedded in broader action; the perception of many managers that the positive effects of microcredit, including revolving funds, are not dependent on the design of measures but mainly on the willingness of the donor, and the fact that the continued provision of microfinance services was unimportant from the perspective of the users; the limited ability of FCM-managers —due to their chronic quantitative failure— to perform a adequate dissemination and advisory work to other departments;, and the absence of a document which establishes a strategy for the sector.

A residue of this disconnection can still be found in the 2009-2012 *Master Plan for Spanish Cooperation*, where it states that “The FCM is not the only action of the Spanish Cooperation for Development that affects, directly or indirectly in microfinance partner countries’ markets. Other actions (revolving funds or NGO projects, for example) have microfinance components. Basic rules should be defined in order to establish a minimal

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5. MINISTRY OF FOREIGN AFFAIRS AND COOPERATION. STATE SECRETARIAT FOR INTERNATIONAL COOPERATION. GENERAL DEPARTMENT FOR PLANNING AND EVALUATION OF DEVELOPMENT POLICIES: *Master Plan for Spanish Cooperation 2005-2008*, Ministry of Foreign Affairs and Cooperation. Secretary of State for International Cooperation, 2005, p. 56 [<http://www.aecid.pe/publicaciones/store/pub.6.pdf>]. *The Royal Decree 741/2003 of the 23rd of June on the Fund for micro-credit for basic social development projects overseas* [<http://www.boe.es/boe/dias/2003/07/17/pdfs/A27839-27841.pdf>] and is written in Article 1.2 that “[...] the main purpose of FCM is to contribute to the fight against poverty in developing countries through the promotion of microfinance services [...]”.

coherence of Spanish cooperation in this sector, in order for them to support the definition of a global microfinance strategy in the framework of the Strategy to support the promotion of the productivity net of Spanish Cooperation”<sup>6</sup>. As the next paragraph reads, “[...] the actions of the FCM respect the principles and guidelines established under the *Competitive Grant Applications Project* [due to a grammatical error, this name appears instead of the correct *Consultative Group to assist the Poor*] (CGAP) and are summarized in the “Key Principles of Microfinance” and “Guidelines for good practice from donors in microfinance”. This means that after promoting coherence between different types of actions, it is established that the basic principles of good industry practice in microfinance should only be applied within the FCM.

## From micro-credits to inclusive financial systems

Following the late incorporation, as previously noted, of the term of “microfinance” —given that “microfinance” has been used as a synonym of “microcredit”— comes the recent *Strategy for Economic Growth and Promotion of the Business network* “where we include the concept of “inclusive financial systems”<sup>7</sup> developed by the CGAP, who defines them as “financial system which provide services to all customers, not just small business owners or employees”<sup>8</sup>.

In the above mentioned *Growth Strategy* [...] possible courses of action are proposed. These should be realized following a subsequent microfinance strategy. Specifically, in addition to microcredit, the promotion of the collection of deposits (micro-savings), the provision of technical assistance to regulators and supervisors, and the support to an adequate supply of services

6. GOVERNMENT OF SPAIN. MINISTRY OF FOREIGN AFFAIRS AND COOPERATION: 2009-2012 *Master Plan for Spanish Cooperation*, Ministry of Foreign Affairs and Cooperation. Secretary of State for International Cooperation. Directorate-General for Policy Planning and Evaluation for Development. Directorate General of Planning and Evaluation of Development Policy. Sub Directorate General of Planification Development Policies and Aid Effectiveness, p. 233.

[[http://www.aecid.es/export/sites/default/web/galerias/publicaciones/descargas/libro1\\_PlanDirector\\_LR.pdf](http://www.aecid.es/export/sites/default/web/galerias/publicaciones/descargas/libro1_PlanDirector_LR.pdf)].

7. MINISTRY OF FOREIGN AFFAIRS AND COOPERATION. STATE SECRETARIAT FOR INTERNATIONAL COOPERATION. DIRECTORATE GENERAL FOR POLICY PLANNING AND EVALUATION FOR DEVELOPMENT: *Strategy for Economic Growth and Promotion of Business Networks*, Ministry of Foreign Affairs and Cooperation. State Secretariat for International Cooperation. Department of Planning and Evaluation for Development Policy, 2011, p. 33.

[[http://www.maec.es/es/MenuPpal/CooperacionInternacional/Publicacionesydocumentacion/Documents/DES\\_CrecimEmpresaDEFINITIVO.PDF.pdf](http://www.maec.es/es/MenuPpal/CooperacionInternacional/Publicacionesydocumentacion/Documents/DES_CrecimEmpresaDEFINITIVO.PDF.pdf)].

8. CONSULTATIVE GROUP TO ASSIST THE POOR (CGAP): *Practical Guide for funders of microfinance. Microfinance consensus guidelines*, Consultative Group to Assist the Poor (CGAP), 2006, p. 42.

[[http://www.aecid.es/export/sites/default/web/galerias/programas/fcm/descargas/Good\\_Practice\\_Guidelines\\_October9.pdf](http://www.aecid.es/export/sites/default/web/galerias/programas/fcm/descargas/Good_Practice_Guidelines_October9.pdf)]

(credit bureaus, financial and social performance auditors, training...) should take place in order to enable microfinance providers to perform their mission more effectively.

After this encouraging progress, and by incorporating a more comprehensive approach to microfinance, which had been preceded by the creation of the Development Promotion Fund (FONPRODE)<sup>9</sup>, which assumed the work which had previously been performed by the FCM with a remarkable diversification of the refundable instruments—FCM could only use loans and credit<sup>10</sup>—it seems that we are finally going to be able to count with a strategic and policy-making framework which is finally capable of framing a more effective microfinance actuation from the CPED.

This optimistic interpretation may be affected by what is stated in Article 9 of the FONPRODE Regulation, which reads the following:

*“FONPRODE will take care of the microfinance funding of the following projects, in order to improve the lives of vulnerable groups and to execute basic social development projects:*

1. *Approval of funding lines aimed at the micro-credit concession and revolving credit.*
2. *Acquisition of direct or indirect equity or quasi-equity in companies or financial investment vehicles, aimed at the promotion of microfinance activities”<sup>11</sup>.*

Reintroducing at a regulatory level concepts with such a difficult operational precision as “vulnerable groups” and “basic social development projects” as well as the exclusive destination of microcredit financing lines and revolving credit. In addition to this, we must also consider the absence of technical assistance.

## **What will the future of microfinance in the CPED be?**

It seems reasonable that the logical path when designing the future of microfinance cooperation in the CPED should be guided by the unrestricted incorporation of the strategic vision of the existence of inclusive financial

9. Created by Law 36/2010 of the 22nd of October, on the Fund for the Promotion of Development [http://www.boe.es/boe/dias/2010/10/23/pdfs/BOE-A-2010-16131.pdf]

10. Royal Decree 741/2003, Article 3.2.

11. Royal Decree 845/2011 of the 17th of June, which approves the Regulations of the Fund for the Promotion of Development [http://www.boe.es/boe/dias/2011/06/25/pdfs/BOE-A-2011-10973.pdf]

systems, with which all public donors would agree, as well as the search, at a national sector level and in each cooperation entity, of a mission which responds to their resources and their know-how. This search should also be directed to identify the fields which would have comparative advantages, as well as what actions actually possess the quality of being additional, for example, the ones which would not take place if they had not been implemented by such actor<sup>12</sup>. The capacity of each entity of identifying the achievable within the desired set of actions is essential —given the rapid growth of the internal diversification of what is now defined as microfinance—, to achieve the minimum standards of efficiency in the use of available resources.

This matter, which is very important in any aspect of cooperation for development, is particularly relevant in a sector where the private presence is prevalent among entities providing microfinance services, and is increasing the funding, capitalization and services to these entities. Linked to the above, it is also mandatory —and not only in the CPED, but also for all public actors— to reflect on how the subvention component should be designed — inherent in any development activity—, so that it has an impact on the expansion, diversification, depth, adequacy and sustainability of the provision of microfinance services, as well as in reducing their direct and indirect costs, and also, so that is not captured for other purposes by private actors.

Ultimately, the question that should be asked to the CPED in the immediate future is how to maintain and expand its presence in microfinance, increasing their quality, in a period in which increases in financial resources are not expected. This requires a strategic approach —based on dialogue in between the Spanish and international actors— which makes it possible to continually increase its adaptation to the ever changing and varying needs of the sector.

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12. A more detailed discussion of possible alternatives can be seen in CONSULTATIVE GROUP TO ASSIST THE POOR (CGAP): Practical Guide for funders of microfinance. Microfinance consensus guidelines, Consultative Group to Assist the Poor (CGAP), 2006, pp. 30 and 31.