
MICROFINANCE MANAGEMENT CAPACITY AT THE SERVICE OF COOPERATION FOR DEVELOPMENT*

ICO FOUNDATION

Capacity building for the management of microfinance services offered by Non-Governmental Development Organization (NGDO), framed in comprehensive activities for development, should be supported in order to: 1) Minimize the risk of negative impact of microfinance instruments, especially micro-credits, and 2) Use them adequately considering the real needs of the clients who are financially responsible to improve their living conditions.

ICO Foundation began its work in the world of cooperation for development in 2006, when it launched its first call for projects supported by Spanish NGDOs and local partners. From then until today, the primary purpose of channelling aid has not changed: to strengthen the capacities of the organizations here and there in order to increase the effectiveness of the cooperation process, or to cut it short: to serve people better.

This framework comes from the vision that those in charge of the ICO Foundation built from their long experience in the field. Cooperation actions, except in the case of some NGDOs with abundant resources, are usually born out of the urgency of using the regular aid offered to the sector to contribute to the fight against poverty in developing countries. With great effort, some small and medium sized organizations implement and continually assess the performance of their work to transform what they have learnt in future projects. But these cases are rare, either because of lack of capacity or lack of financial resources and time for implantation into the organizational culture.

The support of the call focuses on reinforcing some of the most important processes which include the project cycle, specifically the identification and formulation, evaluation and systematization of the experiences.

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Throughout past years, the grants were given out to projects in cooperation in various sectors, such as health, productive development, good governance, environment, education, etc.

Most of the initiatives that involved microcredit and other microfinance instruments did so at the service of other components in which the entities involved had a higher degree of specialization. The articulation of microfinance as being useful to the service of a number of activities in a specific sector may seem theoretically correct, but we should reflect in the “reality” in which it really translates.

We need to acknowledge the fact that the most used microfinance in cooperation, not only Spanish, are those related to micro-credits. It is also important to note that these micro-credit practices are developed both in an urban environment where the individual accessing the service enjoys relative anonymity, as in a rural environment in which that user / beneficiary interacts socially and politically in an environment where groups and agents are aware of their identity. It is obvious that the degree of success of financial services largely depend, among other relevant factors, on its ability to adapt to the characteristics of these circumstances. To foresee the positive and negative impact that a microcredit activity can have on the lives of individuals and communities should be part of any analysis that contemplates it as a tool of other components of an intervention.

The dependence that exists in a cooperation project between the activities of one component and another is enormous. When a family participates in an educational project on nutrition, training for crop improvement, environmental management and agricultural activity is driven by inputs and access to microcredit, the margin of decision making over applying for a loan will be largely in the hands of “beneficiaries” who fit in the schedule of the project.

However, the responsibility implied by this decision should rest with “clients” of that community with a basic degree of financial education, as well as with microfinance practitioners who know the capabilities of their customers, as well as their business.

The failure of a “beneficiary” of a micro-credit can result in an unaffordable debt which could potentially result in tragic endings for that person and his family, leading to an increased dependence on political patronage networks that capitalize on the individual, or collective failure, as well as in public humiliation in communities with extremely radical honour codes.

We simply want to draw attention to how destructive a financial product could be, especially when it comes as mere capital for other activities of a project. These are some of the thoughts that cooperation draws from its experience.

There are, however, other voices. Those which portray microfinance as a menu of services managed and adapted to each condition, changing circumstances of those who had never been historically “bankable” can bring major social and economic transformation of individuals and groups. This concept includes, firstly, that not all people actually need a small loan, and that the access to such a loan may increase their vulnerability. Micro-savings, micro-leasing and other microfinance products can equally serve, or serve even better to people’s needs.

In order to detect these needs, devise appropriate products and innovate in this sector, it is essential to have an in-depth knowledge of the market in which the financial activity occurs, as well as to know how to operate each menu service and how to use of these instruments.

Since 2011 the ICO Foundation has started a new career within the Social Finance area which aims to promote coordination, knowledge and innovation in the Spanish performance of the micro-finance sector, both nationally and internationally. For this reason, focusing in the processes of the project cycle, the International cooperation call is now fully geared towards the development of microfinance initiatives and Microfinance Institutions (MFIs) that already exist.

This line of does not intend to create microfinance activity among Spanish NGOs or local partners with experience in the field of cooperation for development if these services have not previously been regarded as suitable to the needs of their target groups. On the contrary, it seeks to strengthen those institutions, NGOs and MFIs to detect gaps or shortfalls in its microfinance operations and feel the necessity to increase and improve their capacities, or the appropriate replication identification of its activity in other locations / regions. It is likewise an objective of the call to increase the capacity of banks to diversify their microfinance products offering adequate paths which meet the targeted collective’s circumstances and possibilities.

We believe that if we raise the standards of efficiency, effectiveness and appropriateness of microfinance products offered to real needs from MFIs and NGOs, we will generate greater opportunities for its comprehensive implementation of necessary instruments to succeed.

ICO Foundation hopes to be able to contribute to the capacity building for the adequate management of microfinance activities framed in the cooperation for development activities, and works towards the premise that these take place whenever there is a real opportunity for transformation and for improving the lives of people.