SPANISH COOPERATION IN MICROFINANCE*

JOSÉ ANTONIO MONEDERO**

The purpose of the Spanish Cooperation in microfinance, initially through the Fund for Microcredit (FCM) and currently through the Fund for the Promotion of Development (FONPRODE) is to contribute to fight against poverty in developing countries through the promotion and consolidation of microfinance services. With this, the idea is that the provision of such services would meet the needs of economic and social sectors that either have no access to the traditional financial system, or the later does not adequately meet their needs.

In particular, the FCM has sought to promote inclusive financial systems with a capability of providing, in terms of long term profitability and sustainability, complete and adequate financial services to micro-entrepreneurs. As a complimentary objective, the FCM has sought to contribute, along with the other instruments of development for cooperation, the integration of the Spanish cooperation works, abiding to the principles, objectives and priorities established by Law 23/1998 of 7 July, from international cooperation for development of cooperation.

To meet these goals, the FCM has been provided over 12 years of existence (1998-2010) an increasing annual allocation from State Budget, which reached 100 million / year from 2005, which has been mostly allocated to loans offered to microfinance institutions (MFIs) for them to then provide microcredit and other financial services, such as savings or deposits and, more recently, micro-insurance, remittances, or guarantees. A small part of the assignment to the FCM has been used to provide technical assistance to MFIs, and to cover expenses related to the preparation of operations (evaluation of proposals for action, monitoring, inspection).

The FCM has been one of the most ambitious programs of Spanish cooperation, having achieved a strong international presence that resulted, in

* Translation: Mónica Fuertes Brítez.

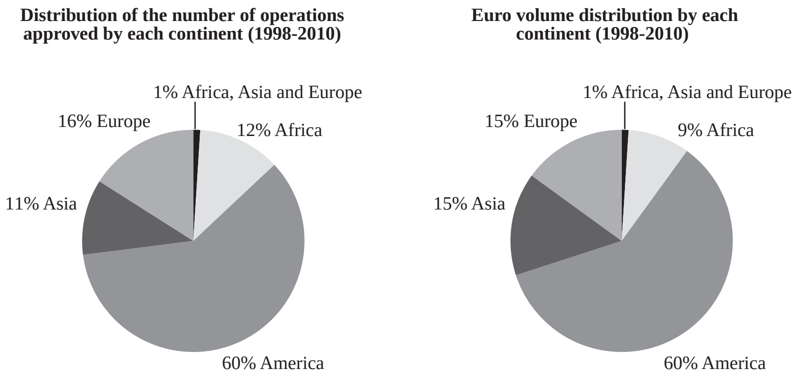
** Head of Unit for Microfinance of the Spanish Agency for International Cooperation for Development (AECID).

2009, to be considered by the Consultative Group to Support the Poor (CGAP), the second largest donor in the world at a bilateral level, and the fourth in the group of 16 major Financial Institutions for Development, after the KFW (Development Bank of the German Cooperation), the European Bank for Reconstruction and Development and the International Finance Corporation, the financial arm of the World Bank.

The management of FCM, the only refundable fund for Spanish cooperation with a bilateral nature, has been the responsibility of the AECID, who —through its Microfinance Area— has developed a successful methodology for the identification, analysis (due diligence) and monitoring of loans granted to the IMFs, who have effectively followed the objectives included in the four-year plans of the Spanish cooperation. As a result, in addition to achieving the main objectives pursued by the financial cooperation, we have seen impeccable financial results where there have been no negative cases, for both the amortization of capital and interest charges, including over 92 MFI borrowers of FCM. In this activity, AECID has enjoyed the collaboration of the Instituto de Crédito Oficial (ICO) who, in their role as financial agent of the fund, has helped ensure the operations through the development of risk analysis, being responsible for operational disbursement and repayment (interest and principal) for each operation, for which the contract conditions (applicable rate, duration, grace period, etc) have been duly documented for each loan.

In addition to the activities developed for the FCM, AECID has undertaken other activities to support micro-finance on a multilateral basis, i.e its collaboration with other international partners, well in regional training programs, such as

Figure 1. FCM operations, geographic distribution



Source: Internal

technical assistance fund for micro-finance Africa, developed in collaboration with the African Development Bank, or with funding programs coming from institutions who offer loans to micro and small businesses. Such has been the case of the Regional Micro Small and Medium Enterprises Investment Fund for Sub-Saharan Africa (REGMIFA).

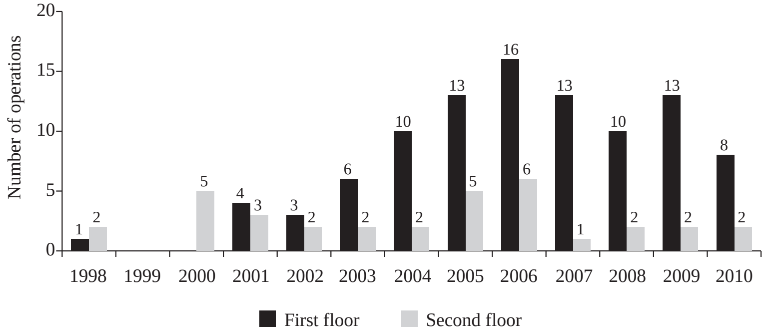
Since the beginning of its activities in 1998, the FCM has formalised 128 loan transactions, totalling over 750 million euros, with MFIs geographically distributed worldwide, although with a greater presence in Latin America, both in volume and the number of lending operations.

Among the FCM lending institutions, we can distinguish two groups, the first tier, the most numerous (74% of total), which are in direct contact with end customers recipients of micro-credits, and the second tier (25% of the total), or bank of banks, whose customers are the first tier.

The temporary distribution of the number of performances throughout the life of the FCM peaked in 2006 with 16 loans to other institutions, showing a subsequent downward trend that reflects, to some extent, the effects of saturation of certain markets and the later financial crisis.

The loans granted by the FCM bear interest of commercial nature with a small margin of concessionality, that makes them creditors by being considered an official aid for development. However, its main advantage is its lengthy term until cancelled. As a result, most of the loans, which reference to recent years, have an interest rate of 5.75%, repayment within 10/12 years and a grace period of 5 / 6 years.

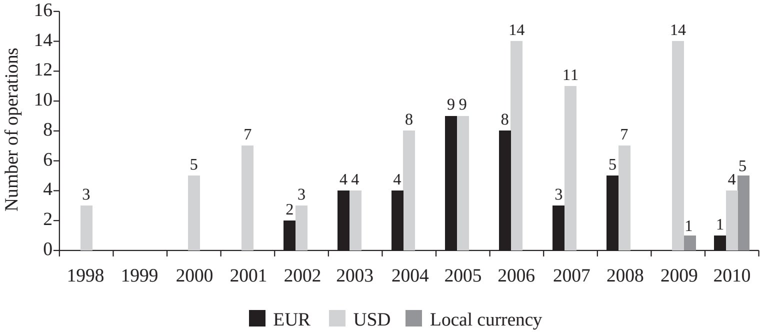
Figure 2. FCM operations, distribution by type of borrower



Source: Internal.

When it comes to the currency of disbursement and the repayment, loans have been disbursed in dollars, and to a lesser extent in euros (institutions located in the Balkans). However this practice has begun to change in 2009, with the first operations being paid in local currency, which aims to relieve the FCM from the exchange risk that long-term debt in “hard” currency involve, given that their normal operations (credit and savings) are done in local currency.

Figure 3. FCM operations, distribution according to currency disbursement



Source: Internal.

With regards to the type of legal corporate structure of the borrowers of the FCM, 67% are regulated and supervised institutions, belonging to the second-tier (85%) and first tier (61%). The rest of the MFI are either NGOs, or organizations that have not taken the step to the regulated sector. These initiatives have always been supported by the FCM, but many MFIs are not prepared because of the strict requirements set by the Financial Superintendencies.

Integrating the reports provided by the FCM borrowing MFIs, one can say that, with resources from the FCM, loans have been given to more than two and a half million micro-entrepreneurs in developing countries, mainly destined to the services economy (73 %). On the receiving end of these loans, about 62% were females, with investment with fixed capital in micro-enterprises (20%) and the rest (74%) in capital. From the point of view of location, receivers would normally live in urban areas (79%) vs. rural areas (21%).

Finally, following on the actions of the FCM in order to draw conclusions which could be applied to the coming into operation of FONPRODE, as far as micro-finance is concerned, we must acknowledge that one of the strengths of FCM lays in its institutional base and the high discipline gained in the process of its management, as well as the everyday interrelation and synchrony between the fund manager AECID, and the Financial Agent ICO.

There are three unresolved elements in the FCM to which FONPRODE should pay special attention. Three elements for analysis:

The first one, is the need to seek additionality in each case study, that is, we should be able to say that if FONPRODE does not go for the loan transaction, nobody else would, even complying with all applicable requirements in favour of the final objectives of the financial cooperation. The same applies with the opposite, not to do redundant operations in which other partners or other private sources are already taking action.

The second is the provision of resources to FONPRODE internal or external, that address solvency, the hedging (hedging) so that all lending is made hereinafter in local currency. And without penalizing the micro end with higher interest rates to obey a bad exchange risk management.

The third challenge, and thinking about the longevity of FONPRODE, will be to achieve an appropriate ratio in between HR staff and external resources (consultants) so that the AECID can have a progressive improvement of knowledge on the subject coming from the public decision-makers. Needless to say, it is unwise, economically speaking, to hire extremely specialised staff in a long term basis when only a temporary or part-time collaboration is really needed.

To conclude with this overview of Spanish Financial Cooperation, we should remember what was mentioned above: thanks to a good management in development, the FCM —who has succeeded in its twelve years of existence— has improved the quality of life of people, or at least, has reduced the vulnerability of plus two and a half million micro-entrepreneurs around the world.