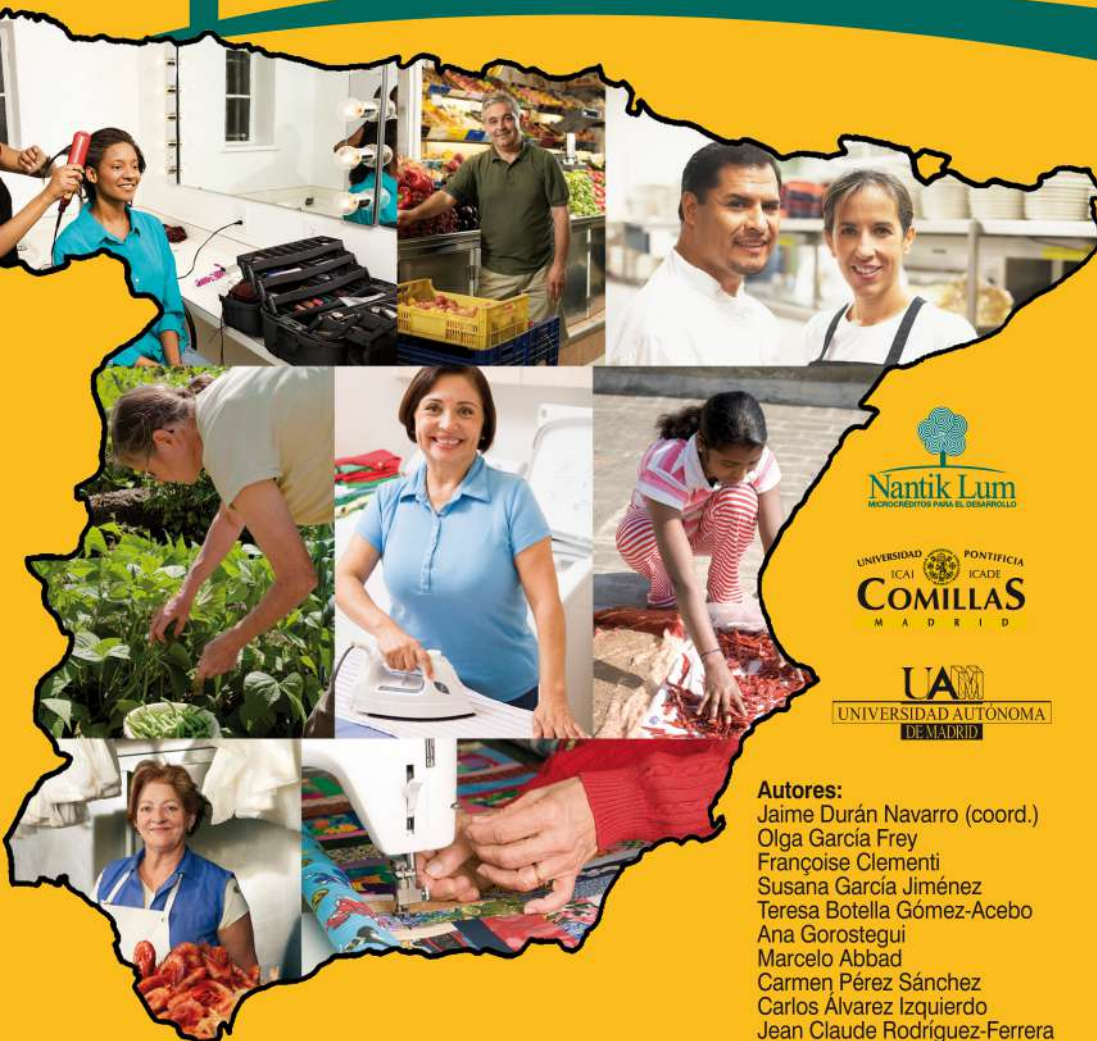




**Conclusions from the
First National Meeting on
Microfinance and Reflections
on the Principal Issues
Addressed**




Nantik Lum
MICROCRÉDITOS PARA EL DESARROLLO

UNIVERSIDAD ICAI PONTIFICIA
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FORO
DE MICROFINANZAS



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ISSUES ADDRESSED**

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Prologue

It is an honor for me and for Fundación ICO to present the conclusions from the first National Microfinance Meeting held in Spain.

Fundación ICO and the City of Madrid are the financial sponsors of this event, and we want to congratulate the organizers (Universidad Autónoma de Madrid, Fundación Nantik Lum and Universidad Pontificia Comillas) for their efforts and success in preparing the groundwork and making it possible to hold this first Meeting, which will undoubtedly be a first step toward full coordination among all microfinance players in Spain.

The Meeting was a success by all measures, from the quality and depth of the presentations and speakers to the attendance of over 200 persons interested in microfinance. This proves that there is a desire on the part of participating institutions to coordinate their actions and efforts aimed at making microfinance an effective tool in the fight to eradicate poverty.

Over the course of the Meeting, many points were placed on the table for review and debate, and discussions were held on numerous topics, from the sustainability of social microcredit support organizations (hereinafter SMSOs) to the exact definition of microcredit, from interest rate issues to the need for microfinance regulation and everything in between. I have no doubt that the Meeting has created a nexus and has served as a coordination platform for unifying our efforts.

Of particular interest and value for the Spanish microfinance sector was the SWOT Analysis conducted during the Meeting. The conclusions were compiled by the Foro de MicroFinanzas and gave rise to specific working groups tasked with creating a governing framework for future action with consensus from all organizations working with microcredit, summarizing all of the suggestions, needs, requests, and issues faced by these institutions.

The SWOT Analysis may serve as a political stimulus for governmental support of microcredit activities, creating the legal framework and triggering the formation of the necessary social and economic infrastructure.

Olga García Frey
Vice President
Fundación Instituto de Crédito Oficial

1. First National Microfinance Meeting in Spain

Coordinated by the Foro de MicroFinanzas (Microfinance Forum) and sponsored by the Council for Employment, Women and Immigration of the City of Madrid and Fundación ICO. It was held September 15-17, 2010 at the Universidad Pontificia Comillas in Madrid.

1.1. Participants in the first National Microfinance Meeting in Spain

The first National Microfinance Meeting brought together representatives from universities, NGOs, foundations, and public entities as well as microentrepreneurs and the general public.

The Meeting was a space for debate, analysis, strengthening, and spreading microfinance in Spain. To achieve this objective, in addition to the plenary sessions, attendees were divided into working groups and given the task of creating a new action plan to reactivate and urge the sector forward within our country.

We would like to take the opportunity of this publication of the sixteenth edition of the Collection of Monographs, to present a specialized journal bringing together academic papers, research and essays on matters of microfinance, to thank the attendees of the Meeting for their active participation, and to express our sincere hope to have faithfully reproduced all contributions in their entirety.

The list of participants and institutions is as follows:

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1.2. SWOT Analysis

Within the framework of the Foro de MicroFinanzas¹, the first National Meeting on Microfinance was held at the Universidad Pontificia Comillas on September 15-17, 2010. Its purpose was to bring together all players in the sector for a debate on how best to design a model for microcredit services in our country, and to propose a new action plan. A SWOT analysis of microfinance in Spain was conducted at the meeting. This consisted of establishing an inventory of the Strengths, Weaknesses, Opportunities, and Threats for microfinance, and for the institutions that comprise the sector in Spain.

SWOT Analysis
<p>A SWOT analysis is a planning tool for evaluating the competitiveness of an institution in the market (external situation) and its internal characteristics (internal situation), to determine Strengths, Weaknesses, Opportunities and Threats. The internal situation is defined by the controllable strength and weakness factors while the external situation is defined by the non-controllable opportunity and threat factors.</p>
<p>The external analysis (Opportunities and Threats) consists of determining the market strengths that represent opportunities to be leveraged by the microfinance sector in Spain or which could pose a threat to its growth. Strengths may be:</p>
<ul style="list-style-type: none">• Political: Political stability, governmental support of the microfinance sector, etc.• Economic: Economic growth, development of microenterprise and self-employment, banking market penetration• Legal: Tax relief for microenterprises and microfinance institutions (MFIs), regulation of the sector, banking legislation (interest rates), labor legislation (hiring employees, unemployment insurance), etc.• Social: Immigration, unemployment, entrepreneurial capacity, etc.• Technological: Using new technologies, etc.
<p>The Internal analysis (Weaknesses and Strengths) consists of determining the weak points of the microfinance sector that obstruct the leveraging of opportunities and the strong points that can be utilized to tap opportunities or overcome threats. Weaknesses and strengths may refer to the availability of resources, such as capital, qualified personnel, types of financial products and services, communications strategies, and client perception, among others.</p>
<p>Source: <i>Boston Consulting Group (BCG)</i></p>

The major Strengths, Weaknesses, Opportunities and Threats identified by the attendees in working group sessions held during the Meeting are detailed below².

¹ The *Foro de MicroFinanzas* (Microfinance Forum) is a pioneering space for debate, study, and exchanging experiences in microfinance organized by Fundación Nantik Lum, Universidad Pontificia Comillas and Universidad Autónoma de Madrid. Partners include Deutsche Bank, the Immigration and Cooperation Council of the city of Madrid, Fundación ICO and Fundación África Directo. Its activities include organizing conferences, initiating panel discussions led by experts and the publication of this Compendium*, a collection of research and essays on matters of microfinance.

² All of the opinions expressed herein are those of the Meeting participants, and do not necessarily reflect the opinion of the Foro de MicroFinanzas.

1.3. Main Conclusions from the SWOT Analysis

What are the major weaknesses in the microfinance sector in Spain?

Weakness N° 1 – Absence of Microfinance Institutions (MFI)

- There exist no true MFIs in Spain that provide microcredit as well as support services to microentrepreneurs (training, business plan guidance, etc.). The savings banks (*cajas de ahorros*) in Spain do not provide these services, essential for the creation of self-employment.
- Absence of a suitable regulatory framework that would promote the existence of true microfinance (non-banking) institutions, increase their number, and pave the way for competition among them to allow for continued development of the microfinance sector.
- Absence of a legal framework to promote the start-up of microenterprises and foment self-employment.
- The charity work of the savings banks, currently the principal source of microloans in Spain, are strongly influenced by political decisions. This has caused all of their social programs, including microcredit programs, to be very unstable and dependent upon the political fashion of the day.
- Lack of needed support so that SMSOs (Social Microcredit Support Organizations) can offer a greater quantity and higher quality of services.
- Microfinance and microcredit do not yet have a place on the Spanish political agenda.

Weakness N° 2- Unsustainability.

- Microlending in Spain has been and continues to be an unsustainable economic activity. The institutions that offer microcredit cannot attain financial sustainability.
- Absence of a regulatory framework conducive to microfinance. MFIs are not permitted to obtain the financing they need to be released from dependence upon formal financial institutions (banks, savings banks) and the political fashion of the day. An MFI in Spain, for example, cannot mobilize savings or charge interest above the rate cap. Neither can ethical

or social funds be legally created by private parties for purposes of financing microfinance activities.

- SMSOs (social organizations intermediating between sources of financing and microentrepreneurs) are not self-sufficient and it is unlikely that they can achieve sustainability in the long term, resulting in a high degree of dependence on public subventions.
- Organizations lack access to a range of financing sources, which results in unavailability of capital, a limiting factor for growth.
- Financial institutions do not have the long-term vision required to keep their microcredit programs alive, whereas SMSOs do have the long-term perspective but lack funding.
- Financial institutions' social and financial commitment to microfinance is insufficient.
- SMSOs lack sufficient funding to hire qualified personnel with the appropriate economic-financial training to meet microcredit borrower demand.
- Microcredit programs consume large amounts of human and material resources. This is a weakness insofar as they are not economic and financially sustainable.
- SMSOs are currently at the service of banks and not available to carry out their work for their clients. Those who really know how to work with microcredit and create social programs with volunteers are not receiving support.

Weakness N° 3- Unsuitable Legislative Framework and Absence of Lobbying.

- The current regulatory framework is obsolete. The law prohibits fostering the underground economy while at the same time it fails to offer any alternatives or outlets for informal microentrepreneurs to cross over to the formal sector of the economy.
- Local development policies have no legislative framework to serve as a foundation for including and integrating microfinance locally.

- The quantity and complexity of legal formal requirements needed to start up a microenterprise represents a huge barrier to the development of the sector. Microentrepreneurs require a specialized legal, tax, and administrative framework if microfinance products are to serve them efficiently.
- Shortage of lobbying targeted at strengthening the microfinance sector.
- Shortage of lobbying targeted at carving out a place for microfinance on the national political agenda and spreading microfinance-related information within the public sector.

Weakness N° 4- Lack of Coordination and Paucity of Information.

- The sector is heterogeneous and there is no single and concrete description of the concept of microcredit. We must arrive at a definition of what microfinance *is not*. This will prevent stakeholders from being tied to a single definition of what microcredit can and cannot achieve.
- Consumers of microfinance do not have a voice in the discussions that have to take place for the sector to develop.
- Public and private initiatives for supporting and promoting microfinance are totally uncoordinated.
- There is a shortage of interconnecting channels between the different entities working in the sector (banking, public agencies, SMSOs, and microentrepreneurs).
- There is a lack of information about microfinance, not only among citizens but also within the political parties.
- Supportive actions taken by the European Commission remain largely invisible at the micro level. A large portion of EU support remains within political institutions, without trickling down to the stakeholders who perform the day-to-day microfinance work.
- Decentralization of agencies within the Autonomous Communities of Spain is an obstacle to establishing an integrated microfinance strategy at the national level. In the concrete case of Andalucía, an attempt was made at creating a microfinance policy involving all stakeholders: public

and private social entities and savings banks. Misunderstanding and differing concepts of microcredit led to the failure of this initiative.

- There is no visibility of SMSOs or information about them. The only existing publicity is for financial institutions who in turn provide no information about the organizations with whom they work, those that actually administer the microloans.
- Due to time and resource constraints on the part of financing entities and SMSOs, there is no training agenda for microentrepreneurs. Capacity assessments of future microentrepreneurs are not conducted.
- There is a lack of transparency and professionalism in the microfinance sector.
- Good models for developing microfinance are not shared or made public.
- Among the entities involved there is insufficient networking and cooperation to strengthen and grow the sector, which is characterized by its small scale.

Weakness N° 5- Limitations of Microfinance.

- Self-employment is not for everyone. Some people do not have the ability to run a small business, and they face the possibility of failure.
- Microloans are often issued to people working in the informal market. The legal situation of these beneficiaries represents a weakness for development of the microfinance sector.
- Appropriation and misuse of the term “microcredit.” The word “microcredit” has become a marketing instrument and now it is as if anyone can issue microloans.
- A well-developed microlending technology does not exist in Spain.
- Microfinance products and services such as microinsurance, lines of credit and credit accounts are undeveloped, hindering the growth of the sector.
- There is a definitive lack of focus on microfinance.

¿What are the major threats to the microfinance sector in Spain?

Threat N° 1- Financial Crisis.

- The international credit crisis affecting our country is the main threat to the weak and undersized microfinance sector in Spain.
- Reduction in the supply of microcredit. There has been a reduction of funds and opportunities for micro-business owners.
- Reduced demand for microcredit. Uncertainty and instability have reduced the number of applications for microloans for new business startup. Furthermore, consumption is down nationally, damaging existing microenterprises and causing many to close down, increasing delinquency and adversely affecting the entire sector.
- Savings banks are also affected by the crisis, with diminishing profits resulting in budget cuts for their charity work, which includes their microfinance programs. Some of these savings banks have completely shut down their microcredit programs and transformed into commercial banks.
- SMSOs are severely affected by the crisis and have lost both public and private funding. Many have had to lay off employees and slash their budgets.
- The public administration's revenue crisis has spilled over onto social organizations. The Weakness of the economic model is a Threat for the microfinance sector.
- Organizations working on socioeconomic issues are seeing their budgets being cut and funding transferred to different organizations working with the issues of a smaller minority.
- The number of people who are socially and financially excluded is rising sharply as a result of the economic crisis and high unemployment rates.

Threat N° 2- Current Political Atmosphere.

- Changes in the political leanings of the government represent a Threat to the sector, though it is yet unclear which of the political parties will support microfinance.

- Political influence on microcredit has become politicized. The European Union has been regulating and donating money to create foundations and develop microfinance-related initiatives, but each and every one of the organizations created or supported by the EU has politicians on their boards of directors. Microfinance is becoming a political instrument subject to changing political decisions.

Threat N° 3- Commercialization of Microfinance.

- People in poverty are under threat by the commercialization of microfinance and drift from its social purpose. Some organizations are trying to reach financial sustainability. This model, while valid, is unsuitable to other organizations whose purpose is social. Neither the commercial nor the social paradigm should be considered as the standard for the entire industry.

Threat N° 4- Framework and Regulation of Microfinance.

- It is feared that new legislation unfavorable to the microfinance sector may be passed (possible threat with *Basilea III*).
- There exists the possibility that the sector's most powerful players, who are not Spain's most successful micro lenders, will promote a targeted legislative framework that could hinder the growth of the sector.

What are the major Strengths of the microfinance sector in Spain?

Strength N° 1- The Stakeholders.

- There is diverse range of stakeholders (NGO, financial institutions, governmental bodies) in the microfinance sector.
- Microcredit is being acknowledged as diverse, with differing methods of implementation that are all valid and applicable to the Spanish context.
- Those involved in microfinance are becoming inventive. Since sector development has been limited, players can innovate with new and different methods.
- Commitment. SMSOs are specialized and have a defined trajectory; they are committed to their work.

- SMSOs are characterized by their flexibility and adaptability.
- The sector is maturing in Spain. The government's finance arm, the *Instituto de Crédito Oficial* – ICO, has undergone notable evolution and improvement as a result of the microcredit line that it has implemented.
- There is dialogue and discussion; both the public and the financial institutions are taking social organizations seriously and joining efforts.
- SMSOs are delving into issues of the social economy with microfinance. They are implementing social economics practices which could generate entrepreneurial alternatives beyond the classical creation of self-employment
- There exist alliances and collaboration agreements between the different stakeholders.
- There is public sector support (town and city hall-based social groups).

How can we continue to leverage the Strength of the actors in the microfinance sector?

- Acknowledge that there are several types of players and give them unrestricted space to innovate according to their needs.
- Networking: create alliances, share experiences, attend conferences, etc.

Strength N° 2- Knowledge Creation and Sharing.

- Academic support is plentiful in Spain. Good theoretical training and support for microfinance research is readily available.
- Spain has a well-developed not-for-profit (third sector) structure to accompany microlending with a strong web of support for microentrepreneurs and the microfinance community.
- A system of knowledge creation and sharing has been developed and is effective at a human scale.
- Diffusion and Sharing. There is a growing awareness of microfinance and knowledge sharing with increasing numbers of testimonies, photos, forums for the exchange of ideas, etc.

- Microcredit is conceived of as a tool with a human-centered purpose, mission, and objective.
- Overindebtedness education. Financial responsibility training has recently begun to be implemented.
- There exist social networks that can be harnessed to spread and share knowledge of microfinance issues in Spain.

How can we continue to leverage support and continue promoting knowledge sharing?

- Within the microfinance sector itself, support research activities and academic work.
- Publish experiences and best practices.
- Network and collaborate. Create alliances, share experiences, attend conferences, etc.

Strength N° 3- Adaptation of Microfinance to the Spanish context.

- Microfinance models from the South and from other countries can be adapted.
- Absence of regulation has fomented experimentation with new methods, albeit at a small scale, for innovative projects for particular communities.
- Microcredit is now recognized as a tool whose reach has limits (it is no longer considered the panacea).
- Microfinance has begun to be utilized in a different economy; the consumer economy.
- In Spain, civil society is capable of mobilizing and undergoing social and personal transformation. Companies and individuals can contribute resources (via donations, Social Corporate Responsibility, etc.) to complement services offered by social entities and governmental institutions.

How can we continue adapting microfinance to our needs in Spain?

- Continual trial-and-error experimentation with new microfinance models to determine what works and what does not.
- Understand the limitations of microfinance in our context and try to find new ways of overcoming obstacles (keep innovating).

What are the major Opportunities of the microfinance sector in Spain?

Opportunity N° 1. Grow from Microcredit to Microfinance

- Understand the need to promote savings. Credit is not enough. The poor can save and want to save.
- Evolve the sector from the older concept of microcredit toward microfinance.
- Diversify product offerings, adding microinsurance, microleasing, and other financial products.
- Broaden our vision of the needs of beneficiaries. It should not be restricted to only giving credit for starting or growing a business. Microcredit also has to help microentrepreneurs in their day-to-day life.

How can we take advantage of the diversification from microcredit toward microfinance?

- Focus on savings, not just credit.
- Continue offering a variety of products.
- In order to mitigate confusion, use the term “microfinance” and not “microcredit” when referring to the microfinance sector.

Opportunity N° 2- Innovate.

- Use peer-to-peer lending³ platforms as in other parts of the world.

³ Peer to Peer Lending, also known as Person-to-Person Loans, are financial transactions made directly between people without the intermediation of traditional financial institutions. Prosper (prosper.com), Lending Club (lendingclub.com) and Zidisha (zidisha.org) use this type of methodology.

- Promote innovation in the sector by developing new ways to work more efficiently.
- Utilize technology for managing funds and data.
- Use management information systems (MIS) to collect data, generate reports, and have access to statistics.
- Incorporate the mobile banking revolution and microfinance as experienced in emerging countries and western Europe.

How can we leverage new technologies and innovations?

- Setting up peer-to-peer lending platforms in Spain.
- Using the new technologies that are available, such as MIS⁴ for managing revenue and collecting data, which increases efficiency.
- Understanding the Spanish market and determining whether mobile banking can (and should) be used for microfinance operations. We have to stay open to new technologies.

Opportunity N° 3- Diversify

- Beneficiaries need more microfinance products, not only access to credit. ROSCA (or tontine) groups can be formed to foment savings and group members can use their own savings for offlending.
- Within the sector, diversification to other types of credit is possible, such as credit for consumption, education, mortgages, and others. Definitively broaden our idea of the purpose of credit.

How can we leverage diversification within the microfinance sector?

- Having a good understanding of the needs of beneficiaries and adapting the combination of products as a function of the demand (not the supply).

⁴ Management Information System.

- Offering beneficiaries products other than credit and generating opportunities to save and smooth consumption.

Opportunity N° 4- The alternative to high rates of immigration and unemployment.

- High rates of immigration provide work opportunities in co-development. Through microfinance, immigrants in Spain can contribute to the development of their countries of origin.
- Promoting awareness in Spain about other employment alternatives. People are more willing to start up their own enterprise when they cannot find a job, when there are funds available to help start up a business, and when there exist incentives to become self-employed.

How can the microfinance sector leverage the high rates of immigration and unemployment in Spain?

- Build relationships with immigrant communities who send remittances to their native countries to foment their participation in co-development projects.
- Create awareness about different ways of re-entering the job market, such as self-employment.
- Create awareness about different mechanisms provided by the government to help the unemployed to start up their own business (including capitalization).

2. Reflections on the Main Conclusions reached at the First National Microfinance Meeting

In this second part of this Compendium dedicated to the first National Microfinance Meeting, we felt that it was important to include the reflections of certain members of the microfinance sector on aspects worthy of special mention that arose during the Meeting.

Thus we invited representatives from several organizations and institutions that reflect the microfinance sector in its holistic diversity and heterogeneity to participate in the redaction of this Compendium.

I would like to take this opportunity to thank everyone involved for their kindness and generosity in sharing their points of view, which we hope will enhance the perceptions of the Spanish microfinance sector.

Jaime Durán Navarro
On behalf of the *Foro de MicroFinanzas*

2.1. Microcredit in Spain: 10 years in the Sector

Françoise Clementi
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2.1.1. The First Years

Microcredit in Spain has just turned 10 years old. Its birth in 2001 generated great expectations but unfortunately and due to totally unforeseeable circumstances; it is in a state of uncertainty.

Microcredit was practically unknown when some savings banks launched a novel initiative: Caixa Catalunya, CajaGranada, BBK and Caixa Galicia were the pioneers. The media impact was enormous; the idea of giving poor people credit without collateral or guarantees seemed preposterous.

People who had no possibility of financing their entrepreneurial projects finally had the opportunity to carry them out. Social entities, non-governmental development organizations and employment-promoting governmental agencies viewed this in a very positive light, especially those associations working with women and immigrant communities, the segments of the population experiencing worse financial and social exclusion and unemployment rates.

With microcredit, the Spanish savings banks were now going back to their social origins. Many were founded in the 18th and 19th centuries as charities, the *Montes de Piedad*, which would give small loans to the poor in exchange for a pledged item to be deposited as collateral. These entities were created by charitable institutions and people to fight against usury.

Now with microcredit, to get a small loan a borrower does not even need to bring collateral, just a viable business plan, as the purpose of the loan is to finance the start up of an economic activity that can assure the economic stability of the borrower. In some cases, a small contribution by the borrower to the project is requested, either in cash or material or the machinery needed for the activity being financed.

Since 2001 and for the first years, microcredit gained strength with promising results. The system continued to expand and it was promoted and publicized as a product that would “unify the financial and social efficiency” of the savings banks.

ICO - *Instituto de Crédito Oficial*, the financial agency of the State, opened a line of credit for savings and commercial banks to finance microcredit, in conjunction with the European Investment Fund. Several savings banks and some commercial banks utilized this financing opportunity.

Seeing the tremendous media impact generated by microcredit, more and more savings banks opened up their own lines of credit or utilized those of ICO with different methodologies, but their charitable or social funds always served to guarantee the loans. This guarantee was necessary, as a credit without collateral or backing goes against the grain of risk-adverse “formal” financial business operations.

Savings banks in Spain enjoy a special legal status: they have no shareholders and do not pay dividends. A portion of their profit channels came back to the corporation through their charity or social funds or specific foundations that administer the funds. Microcredit was launched on an experimental basis, and large volumes of transactions were not planned for, so financing or backing microcredit programs using the charitable or social funds was far from an unmanageable task.

The quantity of programs launched slowly increased and the savings banks gained knowledge and experience in administering this new product that was treated differently from traditional loans. It was like the bank in reverse, as described by Mohammad Yunus, the creator of the microcredit concept: lending to the poor and lending to women was nothing short of revolutionary.

Administering each of these “collateral-free” loans was not an easy task, and the procedures had little to do with traditional banking procedures. Collaboration with social organizations supporting microcredit was essential. These entities accompanied clients in the development of their business plan and then provided follow-up of the enterprises created and financed through microcredit. These entities endorsed the entrepreneurs, which helped them to obtain the microcredit. It was important to support the projects of the most capable microentrepreneurs and the most economically viable projects to achieve the most successful results.

2.1.2. 2005: International Year of Microcredit

The year 2005 was designated as the “International Year of Microcredit” by the United Nations to stimulate the creation of microcredit programs throughout the world. Microcredit was considered as a promising instrument although the total number of microloans issued in Spain by the financial institutions never really took off; very few loans were given except by the savings bank *La Caixa*, who placed great emphasis on this product.

The Madrid Stock Market held a symbolic act to celebrate the “International Year of Microcredit:” an acknowledgement of this new financing model that had now earned its stripes by being recognized by a financial system that still held enormous prestige.

Microcredit clients were mostly immigrants, women, people who wanted to start their own businesses and to find a way out of their precarious economic situations. Success stories were broadcast and commented upon in newspapers, books, and television.

But not all clients had success. There is very little data on the survival percentages of businesses financed with microcredit, but we do know that the percentages are similar to those of businesses that are traditionally financed.

When a business fails, the low-income client that has no financial support or assets becomes indebted and has great difficulty in making her loan payments. These situations lead to defaulted loans that are difficult for the microcredit entities to collect.

On top of these losses, taking into consideration that microcredit interest rates are lower than market rates for personal loans, the long and costly business and loan reviews that the microcredit supporting organizations have to carry out, and the slow disbursement that is sometimes “handmade,” there is no way for the programs to achieve financial sustainability. In other words, microcredit programs could not persist without a steady stream of contributed funds.

The design of the ICO microcredit lines, were somewhat inflexible, financial performance was poor, and they were abandoned. The product design, copied from the traditional credit system, was not adapted to the needs of low-income clients. The loan amounts were too high (up to 25,000€) for loan terms that were too short. The outcome was monthly payments that

were very hard for micro-business owners to keep up with on top of their mandatory contributions to social security and the income taxes they had to pay.

2.1.3. 2008: The Crisis

The financial and economic crisis of 2008 has affected every stakeholder involved: savings banks, social entities, and microentrepreneurs.

The Savings Banks

The generalized decrease in profit during these past years has caused a reinvention of microfinance activity. Some savings banks have cancelled their programs and others have reduced microcredit investment or limited it to a segment of their clientele with smaller investment needs.

The current restructuring of the savings bank sector and their transformation into commercial banks brings up a lot of questions about the future of their charitable and social activities in general and microcredit in particular.

But it's not all pessimism, and some of the savings banks are still betting on microcredit as a tool for social inclusion. The pilot microcredit project implemented in Seville by *Fundación Cajasol* in conjunction with *Fundación ICO* for marginalized communities is very interesting. The methodology is inspired by the Grameen bank, never tried in Spain until now. This initiative can make headway into developing microcredit as a product that can reach the most needy. This methodology offers people the possibility of feeling included in a group and having the group support them in starting a business.

Social Entities

These organizations have also suffered budget and resource cuts due to the crisis, and their role is of outmost importance for microcredit to work.

Communities at risk of exclusion require more intensive support and guidance in their endeavors. They are currently organized and trying to get direct access to public funds so they can issue the credits by themselves without being at the mercy of the slow disbursement of the savings banks.

Microentrepreneurs

There are enormous obstacles to moving forward in this difficult economic situation, but for many, self-employment is the only solution. Even with collateral, their loan applications with traditional banks are rejected, and they are applying for non-collateralized microcredit.

The current profile of a microcredit applicant is now quite different. No longer is it a low-income entrepreneur, but a person suddenly unemployed and with debt (mortgage) or a businessperson who needs credit to keep her business alive. These situations are generally not easily resolved through microcredit, which cannot serve as a substitute for traditional banking.

2.1.4. 2010: The SWOT Analysis (Strength, Weaknesses, Opportunities, and Threats)

The future of microcredit in Spain is at a critical juncture. The current situation is detailed in the SWOT Analysis that participants conducted at the First National Microfinance Meeting in Spain. It is an account of the internal weaknesses and strengths of the microfinance sector. It is also an analysis of the external factors: threats to be confronted and opportunities to be leveraged. The result is a solid foundation from which next steps can be proposed that would lead to an atmosphere more conducive to microfinance.

Among the negative points identified in the SWOT is the persistent economic crisis, an external factor threatening every component of the microfinance community: financial institutions, social organizations, and microentrepreneurs. An additional negative factor is that microcredit programs in Spain were launched experimentally without planning for continuity. When it was discovered that administering microcredit is costly and the risk of default high, many of the programs were simply abandoned.

Microcredit programs received “easy” financing, without financial sustainability being a priority. Easy financing did more harm than good, generating a loss of credibility. Rather than being a success in terms of management and efficiency, microcredit was converted into a marketing slogan for the savings banks. The number of loans approved has remained low and has failed to reach the poorest segments of the population.

Some very positive elements were identified in the SWOT Analysis. One of them is the new knowledge about microcredit acquired by the financial and social entities alike. No longer is microcredit perceived as a miraculous product,

but a tool to help micro-business owners take advantage of opportunities. Financial and social entities have a new awareness that the complementary non-financial services of business and financial training prior to receiving the loan and subsequent follow-up are indispensable to achieving positive outcomes.

It is heartening to see the public sector's growing interest in this tool for employment and social inclusion. Many local initiatives have recently been launched and encouraging proposals by the European Union to stimulate microcredit have been ratified. The objectives vary: "improving the legal and institutional context among member states, continuing to develop a climate favorable to private initiative, promoting best practices, including training, and providing additional financial capital for microcredit institutions"⁵.

The *Foro de Microfinanzas* (Microfinance Forum) has played a noteworthy role. As a leader in research and study of the subject in Spain and Europe, it serves as a catalyst for all microfinance stakeholders in this country. Especially significant is its leadership in developing the proposal for regulating microfinance activities in Spain.

Yet another positive upcoming opportunity is the November 2011 Global Microfinance Summit in Valladolid, solidifying Spain's role as an extraordinary point of origin for the diffusion of microcredit knowledge and awareness. The Summit is supported by H.M. Queen Sofia who has for over ten years served as Honorary Co-Chair of the of the Microcredit Summit Campaign.

2.1.5. The Future

Microcredit in Spain is still very young. It needs support to grow strong.

Savings banks' conversion into commercial banks may represent a good moment for a professional redesign of microlending programs with clear definitions of their objectives. The reigning hope in Spain is that these institutions will not completely forego their social origins and will continue to foster charitable and social initiatives, including microcredit. Savings banks have to remain faithful to their beginnings and play their part in eliminating financial and social exclusion. Spanish society demands more and more socially oriented actions targeted at benefiting individual people.

⁵ Synthesis of the European Union legislation:: Development of Microcredit: http://europa.eu/legislation_summaries/enterprise/business_environment/n26115_es.htm.

Political and economic support is needed to promote microcredit and microenterprises. Initiatives must be launched that can facilitate microenterprise startup and give microentrepreneurs temporary relief from their heavy social and tax burden until their businesses become solid and stabilized.

Support is also needed to create new specialized and professional microfinance organizations that offer complementary support services to individual microentrepreneurs and to specific microlenders. Social entities whose aim is employment or social inclusion for communities at risk of exclusion may then choose to transform into microfinance institutions.

Legislation regulating microcredit must stimulate and not restrict the evolution of microlending, which has to always be carried out with two simultaneous criteria in mind: financial and social profitability.

This is a turning point in Spain's microcredit sector, a key moment for creating new microfinance entities that can trigger the development of microcredit and microenterprise practices that are attentive to clients by designing products adapted to their needs and to help them achieve success in their life projects.

2.2. Reflections on the Spanish Model of Microfinance: The First Decade

Carlos Álvarez Izquierdoi
Director, Fundación ICO

Fundación ICO wanted to participate in the global project of the Foro de MicroFinanzas after our participation in their 4th Conference revealed the great potential of the network that the inter-institutional team has been busy building around the microfinance community over these past ten years.

The results of the First National Meeting on Microfinance confirmed that supporting the *Foro de MicroFinanzas* can give rise to a breadth of opportunities for developing Spain's microfinance sector. For microfinance to have a proper space to develop and grow in Spain, it depends now on how the public institutions, social entities, financial institutions and all the other stakeholders leverage the knowledge resulting from the Meeting and persevere in this task whose very definition they are working together to create.

The conclusions about the situation of our microfinance sector generated by the SWOT Analysis provide substantial food for thought about the role of the sector as a whole and about specific roles that each stakeholder can take ownership of, as their contribution to the advancement of microfinance in Spain.

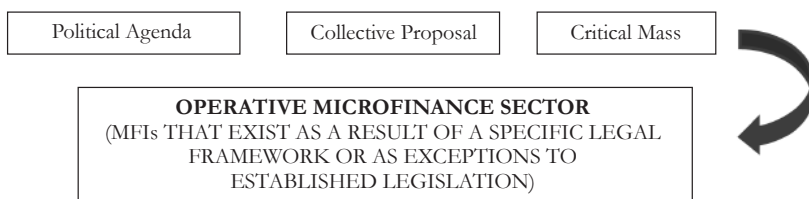
Weaknesses

“Microfinance and microcredit do not exist on the political agenda of Spain today,” was how we expressed a situation that we see as a summarization of other weaknesses, and which inhibits the actions of the microfinance sector.

Microfinance activity is not on the agenda because there has not yet occurred a **critical mass of stakeholders and potential consumers** who will assert the importance of the sector to trigger social and economic transformation. In order for this critical mass to unify and emerge, we have to find a common and shared purpose to rally around, a reason to bring up this assertion. This will require mutual understanding and recognition of the needs of the communities, social organizations, and financial institutions interested in microfinance, as well as public institutions.

Lack of coordination and paucity of information on microfinance, two other weaknesses that were pointed out, cannot in our opinion be disassociated from the aforementioned absence of a critical mass, and are elements that the microfinance community is working on, as exemplified by the Meeting itself. Maximum effort should continue to be made to correct this weakness.

The **absence of a legal framework** to allow non-banking institutions to conduct microfinance transactions was identified as a weakness that can also be attributed to the need for a critical mass, for introspection on the part of stakeholders, and to the necessity of detecting shared needs.



Unsustainability has been identified as another sector weakness and is definitely connected in part to the ability of MFI to operate in Spain. But the debate has to go beyond the legislative framework, since any MFI that exists in a regulated environment is subject to the same dilemma about the extent to which it can and should recoup the cost of its non-financial activities through interest rates, and whether it should offer these services itself or leave that work to others. Definition of the mission of an MFI should definitely go hand-in-hand with a determination as to whether its activity is to be self-sufficient or partially dependent on other stakeholders. It may be pertinent to avoid centering the discussion around the sustainability of microfinance as if it were an absolute, or as if it were only focused on the operator. When calculating the profitability of microfinance, the longer term results and the social benefits obtained in the larger socioeconomic context must be taken into account. Priority status on the agenda for microfinance in Spain must be given to developing the notion of social performance and its instruments.

Threats

Almost all of the threats compiled during the exercise are, as we see it, circumstances or characteristics of our context that do not determine the existence of the sector--they determine the strategy for designing and subsequently strengthening it.

The **financial crisis** is in our opinion proof of the weakness of a system that has not been amenable to extending its services to underprivileged people in Spain or in the rest of the world. Insofar as the microfinance sector in Spain is practically inexistent, something that isn't cannot feel threatened.

Though it is true that public resources allocated to the care and human developments of the most vulnerable are sparse, it is no less certain that the formulas to cover obligatory minimum support to these communities must be innovative. Microfinance and microenterprise is good territory for exploring some of these channels of operation if their classic foundation is regenerated. Social entities that have until now been totally dependent on public support have to take a close look at this work of adaptation, keeping in mind the question of whether or not they can take on an active social role and what are the resources they have available to do so.

Reaching **the political sphere** is undoubtedly a difficulty, or better expressed as a milestone in a medium- and long-term plan to advance microfinance. By broaching the subject in another way and taking on the aforementioned weakness, a critical mass has to be formed, capable of presenting and proposing real solutions to the political sphere. Categorizing the political reality, as a threat prior to having put it to the test with a solid proposal is a symptom of defeatism, that should be avoided.

The threat of **commercialization of microfinance** is a more coherent one, but as discussed during the Meeting, there will never be just one model for microfinance services. The more diversity that is offered by the sector, the larger the sample from which to observe how effective their instruments are at covering the financial, economic and social needs of different communities. If this commercialization is true, it probably responds to a gap in appropriate services for lower-income or severely excluded people.

The other aspect that we believe is a key area for further reflection is the relationship between sustainability/profitability and social performance. Despite the prevailing practice of using financial and economic sustainability to fray the operating costs of microfinance services, the sector has to equip itself with formulas for measuring social performance. Insofar as it can apply them and simultaneously limit their dependence on external sources of funding, it will be able to reduce its susceptibility to commercialization of the marginalized segments of our society.

Strengths

A review of the strengths identified compels us not only to layout a plan for developing our potential but also to draw clear parameters around the elements that should be protected as the microfinance sector evolves.

The **diversity of stakeholders**, from our point of view, is the expression of multiple strengths. Academic, social, financial and public institutions have responded to the Foro's summons to participate in the Meeting and the conference that preceded it. Alternatively, they have played a part in providing microfinance services over the past ten years. It is because of this that the Meeting has become a participative space for sharing work that greatly exceeds all expectations of training and knowledge-sharing.

In coordinating the sector represented by this diversity of stakeholders, it will be important to preserve this space where different communities and interests have a voice and a place. This is how we can make move forward in union, and confront together the present and future scenarios to which microfinance can provide a response.

With regard to the political sphere, the great potential inherent in practicing the aforementioned networking is that it strengthens our power of representation before decision-making bodies, not only in terms of legitimizing the proposals to be presented but also and mainly in terms of the coherence of the proposals. The multi-disciplinary expertise of the sector (legal, financial, sociological, commercial, cooperative, economic, etc.) has to be a guarantee of impeccable alternatives.

This diversity of stakeholders involved in the promotion of microfinance is giving rise to innovation-creating skills being developed within the sector and thus to the permeability of microfinance practice on other continents. Given the poly-faceted current crisis, embarking on processes of learning about entrepreneurship, innovation and the social economy will take top priority, the goal being to acquire useful concepts and tools to develop microfinance in Spain.

In connection with the aforementioned learning process, and leveraging another of the strengths that were identified, that of the margin for "experimentation" permitted by the absence of regulation in Spain, it may be recommendable to keep close watch over the processes of defining a future legislative framework to prevent microfinance activities from being restricted.

Opportunities

Among the opportunities extracted by the working groups at the Meeting, two deserve special mention as they are more geared toward leveraging external factors and conditions than optimizing the strengths mentioned above.

In first place, **innovation**. We have already made reference to innovation as an emerging potential for the sector. However, there is a growing creative capacity to find new ways of addressing social and economic issues, through relationships and through technology. It is indispensable for the microfinance sector to take ownership of these two avenues: the first being the return to networks of people, the trust in the day-to-day social fabric, and the second being technology at the service of cost reduction. Costs are to be understood principally as the opportunity costs for people who are in urgent need of microfinance services. We should imagine it as a formula used to calculate profitability in savings terms, that is, the saving of exclusion and poverty based on opportunities leveraged by individuals as a result of the availability of a resource.

In conclusion, the crisis can enable a return to enterprise, to small- and micro-entrepreneurship. Certain it is that for this to occur, a solid system of support for persons and groups who make the decision to generate income through self-employment has to be put into place. For the long-term unemployed, immigrants or not, this is the only formula for subsistence to be explored. The profile of the majority of these people is far from that of the image of “entrepreneur” held in public and in private. All signs point to business, tax, and financial consulting and accompaniment services being forced to adjust to the new universe of microenterprise. Microfinance policy is faced with the challenge and the opportunity to weave itself in with other social, economic and fiscal policies to make it possible to regenerate this social fabric.

We have reflected on a scenario that is full of opportunities by dint of its complexity. All of the people and institutions who have, over the course of this decade, facilitated the coordination and the knowledge required to forge the path that has lead up to this Meeting must be aware that a large portion of the work is already done. For the future, what remains is to multiply the know-how acquired, create incentives and reinforce stakeholder participation, put forth common goals that are attainable, and protect services provided to people, giving a purpose to this microfinancial unrest in our country.

2.3. Microfinance Outreach in Spain

Susana García Jiménez and
Teresa Botella Gómez-Acebo
Alumni of the Master' Program in Microcredit for Development,
Universidad Autónoma de Madrid

The lack of regulation of the microfinance system in Spain and its relative youth bring up debates about microcredit in our country. The main topics of discussion are around the very definition of microcredit, whether specific regulation is needed or not, what it should look like, sustainability of programs and interest rates to be applied. But another point not usually found among the topics to look deeper into is the outreach of microcredit in Spain, not referring only to numbers (scale) but also to the profile of borrowers.

The 2011 Microcredit Report shows how over 190 million clients worldwide were receiving microcredit at the end of 2009. Among them, over 140 million were women and 128 million were in population segments denominated as “poorest” (104.6 million in the case of the women borrowers). The data reflects the enormous growth of microcredit in the past ten years, because in 1999 there were only around 25.5 million borrowers.

However, in the fight against poverty (progressing toward the achievement of the first of the Millennium Development Goals), maximization of the depth of outreach, not just scale, is a major concern.

The number of microloans issued over the past years has increased notably in Spain, going from a few loans issued in the 1990's by some NGOs and very diverse entities, to the savings banks entering the market with their charitable or social funds in 2001, to the birth of an exclusive microcredit bank in the past years. According to the European Microfinance Network, the amount of Euros in microcredit has reached a record figure of 46 million Euros. With all of this in mind, an analysis has to be done of whether this increase has reached the poorest segments of our society in fulfillment of the objective of depth of outreach.

In our thesis for the Master's Program in Microcredit at the Autonomous University of Madrid called “The Microcredit Situation in Populations that

are Excluded and at Risk of Exclusion in Spain: Special Focus on Gender,” we analyzed the microcredit situation of the excluded population, especially women, who are more susceptible to vulnerability.

According to this study of 68 organizations in Spain, 23% of those who did provide microcredit in 2009 were not providing microcredit in 2010 and the first quarter of 2011.

The study brings to light several small organizations that work at the local level and focus on communities of absolute exclusion (inmates, people with drug or alcohol problems, immigrants, gypsies and ethnic minorities, victims of human trafficking, prostitutes or former prostitutes, victims of domestic violence and homeless people). The programs are experimental, complementary to other types of support and follow-up on pilot programs that do not guarantee continuity nor do they aspire to be technically or financially viable. As they do not share information on best practices (or bad practices), it is difficult to replicate their activity or assist the social entities in the microfinance-related component of their programs. These programs can be said to work in the margins of the Spanish microcredit sector, which include microloans issued by “Social Organizations in Support of Microcredit”⁶.

The market penetration of big players such as MicroBank has changed and given a boost to the sector due to its large-scale market share. It is really these big players who establish the general profile of Spain’s microcredit borrowers, given their volume of operations. This can distort the objective of depth of outreach, with a quasi-total concentration on the objective of scale. According to MicroBank’s 2009 Report, only 6% of the microcredits issued are for “social microcredit,” the sole category among all of MicroBank’s categories that could be considered as *microcredit* for purposes of this paper.

The foregoing can lead us to the conclusion that the number of stakeholders operating in Spain’s microcredit sector is decreasing while the number of loans issued is increasing, which would imply a market concentration on a few players. As a result, given the absence in our country of microfinance regulation, criteria and strategy, they set the criteria for the profile of their borrowers. This could imply a risk or an opportunity, depending on how they wish to use the tool, and for now it seems that scale (number) wins out over

⁶ See *Social Organizations in Support of Microcredit. Their Role in Issuing Microcredit in Spain*. Compendium N° 3, Foro Nantik Lum de Microfinanzas, Madrid.

outreach (borrower profile). We understand that without scale, it is hard to have outreach, but scale should be a means and not an end.

In our view, given the current economic situation, microcredit is a more effective tool for job creation and entrepreneurship than other more support-oriented tools, and it should not be forgotten that microcredit was born to solve a structural problem (poverty), and not a circumstantial problem (economic crisis), so the existing limited lines of credit could be consumed by entrepreneurs who are not necessarily at risk of exclusion.

We should learn from experience and from the best practices of other institutions and countries, paying attention not only to the number of loans issued but also to the profile of the financially and socially excluded borrower by establishing a common set of selection criteria to be used by all of the micro-financial entities working in Spain.

From our point of view, there is still much work to be done to transform microcredit into microfinance, and to assure not only that a larger number of persons have access to microloans, but that social and financially excluded communities have access to credit, thereby achieving true depth of outreach. A legal framework for the Spanish microcredit sector is needed, which shares the same strategy to follow and to be able to reach the real goals that microcredit was born to achieve.

2.4. Microcredit Outreach in Spain

Marcelo Abbad
Fundación Intervida
Ana Gorostegui
MACS-Social Consultancy

Beyond academic definitions and the differing interpretations that have been given to the concept, outreach is defined in terms of two other concepts: impact and effectiveness (outreach + impact = effectiveness). Besides the number of persons who are “reached” by a microcredit program, what’s really important is knowing how the lives of microcredit borrowers have changed. Utopia is found in a program with undefined outreach and an empirically proven impact: borrower to borrower. This makes a program effective.

Experience shows that the greater the reach, the lesser the impact leading to decreased effectiveness. High impact usually means that microcredit has been issued but probably the borrower has obtained other types of opportunities (beyond money: training, support, legal advice, follow-up, personalized analysis of their family situation, citizenship status, etc.) All of this personalized attention requires two key elements: professionalization of these activities, and funds. Both of these create tension with outreach insofar as professionalizing the itinerary for integration through microlending while maintaining the relevance of outreach and scope is impractical for any S (social organization in support of microfinance).

The situation is as follows:

1. Banks do not engage in microfinance.
2. SMSOs dedicated to technical and human support do not have (nor can they by virtue of the absence of proper legislation) funds to loan out.
3. Enterprising people at a certain level of exclusion cannot launch an enterprise without the help of the first two elements.

With respect to outreach, the following are, in our opinion, the two most important facets to take into account:

- The capacity of microcredit programs to reach their target populations, bearing in mind their quality and quantity.

- Measuring the economic and social impact of the programs to determine their effect and transcendence.
- The current situation in Spain is complicated, there being no successful microcredit model to follow. In the first place, banking institutions have withdrawn from microfinance as a result of the crisis. In the second place, the law does not permit microfinance entities to exist, with only banks being authorized to lend money. Lastly but no less important is the fact that self-employment is turning out, like never before, to be the response to the extremely high rates of unemployment that reign in our country.

We make the following suggestions in hopes that they may inspire future microcredit programs in Spain and in other European countries.

1. Governmental agencies and SMSOs should layout a collaboration scheme to guarantee obtention of funds (banks do not make loans unless they are offered maximum amounts of guarantees, as has been proven over the past two years, which is logical, since their purpose is not social). Therefore:
 - Public administrations should cover the cost of non-financial services whose purpose is to help people at a certain level of exclusion to start up their own businesses. They will thus be supporting the people's income generation while reducing the expense of making transfer payments to them (subsidies). One good way to implement this would be to allocate funds from the European Social Fund which is earmarked for this purpose. The administration itself should commit funds, as a cost-covering measure, to provide bank guarantees for the
 - The SMSOs should professionalize their non-financial services to the maximum and stand forth as the moral guarantors of the people receiving them. Rigor, follow-up, consulting and commitment should be the hallmarks of their work. SMSOs should follow a classification procedure to merit this title of guarantor. Past experience has taught us that not all organizations can commit to their beneficiaries to the same degree, and much less to the State and to banks.
2. We have reached a point where we have to share the lessons learned over these years of working in Spain. In is imperative that an impact assessment model, covering both economic and social impact, be created

for microcredit programs. The related issues worthy of mention are the following:

- Few evaluations are conducted and all of them are done from a purely financial standpoint.
- Programs are tainted by the absence of a proper initial identification phase, with repercussions on program design and execution.
- Absence of pre-project baselines to allow for accurate future measurements.
- Social and gender indicators adapted to a Northern context have to be designed, since those currently being used are tied to social models that have very low levels of development, and which include indicators related to nutrition and other elements that are too basic for our context.

2.5. The Sustainability of the Spanish Microfinance Sector

Carmen Pérez
*Head of Social Economy and Microcredit
Fundación Cajasol*

A review of the proceedings from the first National Microfinance Meeting held in Madrid in September 2010 titled Microfinance in Spain: What are we talking about? shows that the second weakness pointed out by the participants is the lack of sustainability of the microfinance sector in Spain. But what does this mean exactly?

The trajectory of microcredit in our country is still young, *a little over a decade*, and with limited experience that has almost always gone hand-in-hand with the savings banks⁷ who incorporated this tool for fighting poverty and social exclusion into their charitable works and foundations. The objective was clear from the beginning and is in keeping with the ultimate objective upon which the savings banks were founded: the fight against usury and financial exclusion experienced by the least privileged classes. Despite the fact that the manners of implementing the programs have not been uniform, we can affirm that all have arisen around a common model, the cooperation between financial institutions (savings banks) and social organizations in support of microcredit⁸.

This has been the model in our country given that Microfinance Institutions as such, hereinafter MFIs, which unify these two roles and can even mobilize savings as in other countries, do not exist in Spain.

In any discussion of sustainability we have to make the distinction between operational and economic/financial sustainability. The former refers to the entity's capacity to generate sufficient income from interest, fees and paid services to cover the operative expense of leases, salaries, social securities, supplies, etc.

⁷ The banks were by testimony at the beginnings of the programs promoted by the Official Credit Institute -*Instituto de Crédito Oficial* from 2002 to 2004 and later stopped operating in this context.

⁸ SOSMs are entities that can be public or private; their legal status is diverse, but all fulfill the mission of advising and helping the future entrepreneur to create a business plan, present it to the financial institution and then provide follow-up for the first years.

If referring to economic-financial sustainability, we are talking about financial expenses or capital costs (financing or funding costs, without delving into opportunity cost, inflation, loan-loss provision, etc.) related to financial revenue obtained through interest and fees charged to clients and that would have to be sufficient to cover the aforementioned expenses.

Other determining factors that are related and have direct repercussions on sustainability are the following:

- The size of the program, a fundamental factor that has consequences in terms of efficiency and effectiveness. Achieving scale in microfinance operations makes a program more sustainable, which occurs when the number of clients is greater, which in turn requires increased human resources.
- The depth of the program, since it is just as important to reach many as it is to reach all of the communities or groups needing it, a broad range to be studied, matching borrower profile with business type. SMSOs have much to say on this issue as they are usually specialized in certain segments of the population.
- Outreach understood as the fact that the financial needs of households are numerous and pose many difficulties in attending to them. Not only is self-employment financeable by microcredit, but other basic or social needs of these communities can also be met, a demand that needs to be supplied.
- Transparency in terms of the loan contract and more concretely with respect to the interest and fees to be paid by the borrower.
- Sustainability, referring to microcredit programs having to demonstrate not only their effectiveness from the perspective of economics in covering expenses with income received, as previously discussed, but also from the social perspective, that is, microcredit programs should generate improvements in the self-esteem, autonomy, education, health and capacity development of the borrowers.

Whichever sustainability we are talking about, including the factors mentioned above that revolve around sustainability, we would have to analyze it within financial institutions and within the SMSOs, two of the three stakeholders in the microfinance sector of Spain.

Starting with the financial entities, since they are savings banks and focus on microfinance from a purely social point of view, they tend to have interest rates that range from 4% to 7% annual, subsidized with respect to market rates, and in most cases with no fees whatsoever.

Under these financial conditions, it is difficult for microcredit activity to be sustainable.

Operations costs are apportioned in their entirety as charity or social expenses, and the capital costs are diluted since the total amount invested in microfinance comprises a tiny part of the sum total amount of financing issued by the savings banks generally; they therefore do not affect the financial margin.

Passing it on to the borrower, most of whom are at risk of social and/or financial exclusion, does not seem to be the ideal solution. On the other hand, passing it on to the financial institution would add one more cost that would be detrimental to the sustainability of the aforementioned activity⁹.

At present, the SMSOs are seeing how their economic resources are diminishing with the crisis and budget cuts, both from public sources and private donations. Some have had to close down for lack of resources to maintain their employees and others have substantially reduced their offerings, lowering the quality and breadth of services offered.

The financial entities, in other words the savings banks, are immersed in a process of merging and transforming into banks and want to maintain their foundational spirit, so they are channeling their charity work through their foundations. The new capital requirements, the yet-to-be-instituted *Basilea II* and the implications of the financial and social crisis we have been suffering since 2007 serve only to complicate matters.

As mentioned at the beginning, sustainability showed up as the second weakness of the microfinance sector and Spain, and the first was the absence of MFIs. The appearance of a true MFI in Spain would add competitiveness to the sector, but at what interest rates and what fees would they have to charge to be self-sustainable according to the parameters set forth above? Probably

⁹ Most SMSOs cover their operations costs with private as well as public funds from programs promoting entrepreneurial culture and the fight against poverty, social, and financial exclusion. Many are specialized in working with the communities affected by exclusion.

a rate of over 25%, with commissions that would increase the annual interest rate to over 30%, which begins to be considered usurious.

What type of entities are best prepared to launch in this sector? Perhaps, financial entities with a minority banking background and deep knowledge not only of the credit sphere but also of the territories where they work. All of this without losing sight of the social services that SMSOs offer to fulfill the goals of microfinance.

It is a social and a financial business, and should try to become sustainable over time as well as to broaden its range of services (more products such as microsavings, microinsurance, microguarantees, etc.) and offering alternative finance methods for clients and their families.

This analysis would lead to the conclusion that at present in Spain, microfinance is conceived of more as a social program than a lucrative business resulting in economic profitability. We must not lose sight of the fact that we seek transformation in the life of the microfinance client, who would be distanced from other economic resources from other social programs promoted by the state as well as private entities.

The sustainability debate is on the table and will remain open as one of the major challenges faced by the sector, keeping in mind the third stakeholder, as yet unmentioned: the potential beneficiary herself. Today more than ever, a growing number of people need microfinance services, people who before the crisis did have access to the financial system and even incurred in overindebtedness as a result of an oversupply of credit offerings on the market.

Meanwhile, we have a promising future ahead of us as witnessed by the great interest shown by all of the participants of the Meeting who have given rise to a Working Groups that has taken on, among others, the mission of assessing the Spanish microfinance trajectory until the present. This will “force” a dialogue among all players involved, from the social corporate responsibility stakeholders of the financial institutions to the official bodies and agencies commissioned with the possibly regulating microfinance, to the social performance of the social microcredit support entities. All of this to attend to a growing need, for there are multitudes of potential beneficiaries awaiting an opportunity that only microfinance can offer.

2.6. The Need for a Definition of Microcredit for the Spanish Microfinance Sector

Jaime Durán Navarro

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Spanish Microfinance Legislation Working Group

Foro de MicroFinanzas (Microfinance Forum)

One of the working groups from the first National Microfinance Meeting was dedicated to the work of defining microcredit in Spain. The reason for this is that one of the weaknesses identified was the lack of a single and unique concept of microcredit.

The reality of microcredit in Europe is quite different from that of Asia, Africa and Latin America, which is why the definition that was adopted at the 1st International Conference on Microfinance¹⁰ which took place in Washington D.C. in February 1997 should be placed within the context of Spain.

This is no easy task, and we have the example of the French microfinance legislation, which does not coin a definition of microcredit, but rather legislates its characteristics (maximum loan size, beneficiaries, methodology, etc).

During the working group discussions, the heterogeneous vision of microcredit in almost all aspects was revealed. From the profile of borrowers which would currently encompass almost everyone under the definition of “at risk of financial exclusion” (the possibility of obtaining credit at this point in time is very low even for the highest-income earners) to loan size, ranging from 500€ to 50.000€, to loan use, ranging from consumption to productive activities.

On aspect the working group agreed on was that of substituting the word poverty (as used on other continents) for the word vulnerability, more in keeping with the European context. The two hours of discussion

¹⁰ Microcredits are programs that issue small credits to the most needy among the poor so that they can begin operating small business that generate an income with which they can increase their standard of living and that of their families.

and exchange of ideas solidified the need to agree on a single and unique definition to prevent future institutions from appropriating the term for marketing purposes, stripping the idea of its virtue, and to create a shared vision for the sector to allow us to coordinate our work better.

This labor, undertaken at the first National Microfinance Meeting, continues within the Microfinance Legislation Working Group for Spain. Progress includes the determination of a maximum loan amount (25.000€) and that the legal status of the borrower must be a natural, not juridical or corporate, person. We are attempting to incorporate into the definition the work of all of the institutions in the sector while holding to the premise of protecting the definition from impairment or appropriation.

A very important aspect of the definition of microcredit in Spain is that it is not merely a question of issuing credit but above all a question of believing in people and in the commitment that an institution must make to the borrower, which is much greater than the person's commitment to the institution.

Microcredit, like microfinance, has a social component that is equally or more important than the financial one, and this must be clearly reflected in the definition itself.

Arriving at a definition that the entire sector can agree on would be a significant advancement in the development of microfinance legislation for Spain.

We have a long road ahead of us but working together is the chance the Spanish microfinance sector has of being able to offer the services that vulnerable persons need from it.

2.7. The future of the Spanish Microfinance Sector

Jean Claude Rodríguez- Ferrera
Internal Lending Communities
Comunidades Auto-Financiadas (CAF)

During the past years over which I have participated in different conferences and meetings related to microfinance, the Spanish microfinance sector was excessively focused on individual credits, and too focused on entrepreneurs without concern for the savings of the most vulnerable people. In spite of our awareness of the absolute dependence of the social support organizations on the financial institutions and that microcredit was not reaching the most needy (with notable exceptions) this situation was accepted in Spain as if it were natural logic.

When I was about to stop attending meetings because I felt I was bringing nothing new to the table and that many institutions were content to adhere to the status quo, the financial crisis struck in 2009. This brought funding cuts for microcredit with the suppression of many programs, and voices of protest were emanating from the sector. In 2010 with the savings bank crisis, the prevailing Spanish model, then considered as imperturbable, was now under threat and the word crisis became a reality for microcredit in Spain. The main stakeholders in microfinance had to regroup, debate and work together: the financial sector, the social entities, the public sector, the academic sector, and citizens' groups.

That is when the first National Microfinance Meeting organized by the *Foro de MicroFinanzas*¹¹ was announced and that announcement was transformed into a reason for hope. If we were capable of facing the crisis with the honesty needed to acknowledge errors and with the enough courage to face the challenge of transforming the crisis into an opportunity, we could save the sector in Spain.

My hope became a reality and the first National Meeting turned out to be a true forum for discussion and for working in conjunction toward the prospect of moving forward all together. In addition to conducting an enlightened analysis of the strengths, weaknesses, opportunities and

¹¹ Microfinance Forum.

threats, the foundation was set for defining a new regulatory framework that would allow for the appearance of microfinance institutions and for a redefinition of microfinance in Spain.

One element that will be very important to the impact of microfinance is microsavings. In Spain there are thousands of persons among the most vulnerable who can save and would like to save, but the system does not allow it. Banks penalize small savers--if you save 100€ in a current account, at the end of the year you may have only 95€ thanks to bank fees. As has been demonstrated on other continents, the impact of microsavings is greater than the impact of microcredit, for it is savings that leads people out of poverty. In a recent European microfinance conference, 90% of the audience responded affirmatively to the question of whether savings was more important to credit. We then asked who was offering microsavings services and only two hands were raised.

Another key element will be citizen networks, physical and virtual, which will collectively design financial products to cover their basic needs and provide mutual support. Within this framework, internal lending groups (CAF-- *Comunidades Autofinanciadas*) and tontines (financial solidarity instruments) are already proliferating, not just among immigrant communities but also among the rest of the Spanish population. I believe that these methods, based on vulnerable people supporting each other, will play an important role in the sector.

Lastly, I would like to highlight the work that the *Foro de MicroFinanzas* has been doing over the years: bringing forth a critical and at the same time enriching vision, dynamism, and much needed coordination to a sector that is so heterogeneous and which will be fundamental from here on out. For almost all of the participants, The Spanish Microfinance Legislation Working Group coordinated by the *Foro de MicroFinanzas* was born at the National Meeting and has catalyzed the participation of representatives from the entire sector. It will be a key factor in the future given the absence of microfinance legislation.

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FORO
DE MICROFINANZAS



El Foro de Microfinanzas es un espacio de debate abierto y estudio permanente sobre microfinanzas, pionero en España. Sus objetivos son:

- Crear un núcleo de estudio permanente sobre microfinanzas en el que participen la Universidad, las ONG, las entidades financieras, la Administración Pública y la sociedad en general.
- Fomentar el intercambio de experiencias y conocimientos sobre programas de microfinanzas en la búsqueda de un objetivo común. Reducir los niveles de pobreza en el mundo.
- Sensibilizar a la sociedad sobre las causas de la exclusión social y la pobreza, fomentando las iniciativas microfinancieras y microempresariales, el ahorro ético, la inversión social y otras alternativas financieras como instrumentos para combatirlas.

El presente Cuaderno forma parte de la Colección de Cuadernos Monográficos que sirve como herramienta de divulgación y sistematización del Foro. En la Colección se han publicado los siguientes títulos:

- Nº1** Los Microcréditos: alternativa financiera para combatir la exclusión social y financiera de España. Descripción de las principales iniciativas. Diciembre 2004.
- Nº2** El Microcrédito como instrumento de reconciliación: evaluación de impacto de los microcréditos de Cruz Roja Española en Ruanda. Marzo 2005.
- Nº3** Las Entidades Sociales de Apoyo al Microcrédito. Su papel en la concesión de microcréditos en España. Mayo 2005.
- Nº4** El microcrédito como instrumento de la cooperación española para el desarrollo. Diciembre 2005.
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- Nº6** Microempresa y Microahorro en la Selva Lacandona, Chiapas: Impacto en el progreso social de la mujer indígena. Agosto 2006.
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- Nº15** Conclusiones del Primer Encuentro Nacional de Microfinanzas y reflexiones sobre los principales elementos de discusión. Julio 2011
- Nº16** Conclusions from the First National Meeting on Microfinance and Reflections on the Principal Issues Addressed. Octubre 2011.



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