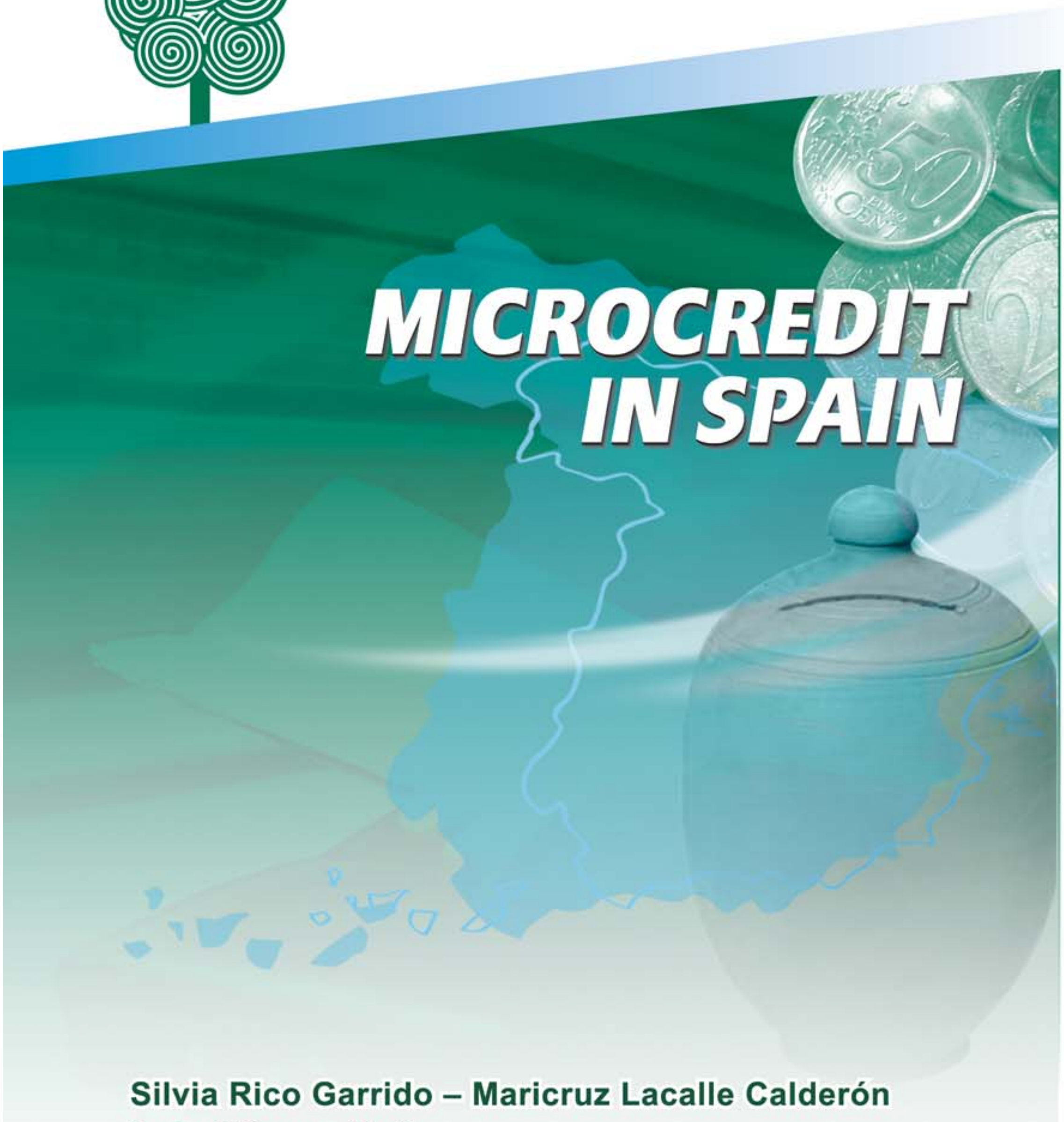
FORO NANTIK LUM DE MICROFINANZAS

EUROPEAN MICROFINANCE network



MICROCREDIT IN SPAIN

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Translation by Sarah Gamester and Joyce Meng.
Cover designed by Sandra Silva.
Printed and bound by Industrias Gráficas Afanias. (España)
Printed in Spain

ISBN: 84-88934-27-0
Legal Deposit: M-6101-2007

This edition is made possible through the financial support of Deutsche Bank Group in Spain and the Agencia Regional para la Inmigración y la Cooperación - Comunidad de Madrid (Immigration and Cooperation Directorate of the Regional Government of Madrid).

FORO NANTIK LUM DE MICROFINANZAS

CONTENTS

GRAPHS, TABLES AND FIGURES INDEX

GRAPHS

TABLES

FIGURES

NOTES ON THE EDITION

The Foro Nantik Lum de MicroFinanzas is a forum designed for the debate and permanent study of microcredit, the first of its kind in Spain. It was founded in 2003 by the Fundación Nantik Lum, working in collaboration with the Universidad Pontificia Comillas Madrid and the Spanish Red Cross, in order to promote serious research in the field of microfinance within an academic and social work-related context.

The Foro's chief aims include:

- Creating a permanent place for the study of microfinance in which universities, NGOs, financial institutions, government and greater society may participate.

- Encouraging the exchange of experience and knowledge on microfinance programmes with a common goal in mind: to reduce poverty around the world.

- Making society more aware of the causes behind social exclusion and poverty, fostering microfinance and micro-business initiatives, socially responsible banking, social investment and other financial alternatives as instruments that can be used to tackle these problems.

To achieve these aims, the Foro has undertaken a series of activities including workshops with experts, conferences, impact evaluations of microcredit programmes on the standard of living of loan recipients, as well as the publication of various documents, most noteworthy, the collection of Research Monographs[1]. So far, the Foro has published seven Monographs which have been well received by both academics and microfinance practitioners in financial and social institutions.

In light of this positive reception, a while ago the Foro members considered the possibility of spreading their knowledge about the Spanish microcredit model, so that other practitioners and institutions in Europe could learn from the successes and failures of this method, and compare models. And therein lies the purpose of this book.

[1] See www.nantiklum.org/foro.htm.

ACKNOWLEDGEMENTS

We thank the European Microfinance Network for being the platform of distribution of this work among with all the network members, as well as Deutsche Bank Group in Spain, Fundación ONCE and *Agencia Regional para la Inmigración y la Cooperación* - Comunidad de Madrid (Immigration and Cooperation Directorate of the Regional Government of Madrid) for their funding and collaboration.

We would like to acknowledge the economic support of all the members of Nantik Lum's Board of Trustees for the research activities of Foro Nantik Lum de MicroFinanzas. We recognise their commitment to the promotion of microfinance in Spain as a tool to fight social and economic exclusion. Finally, we would also like to thank the employees of their companies for their continuous help.

PREFACE

Philippe Guichandut
Executive Director
European Microfinance Network

When I was asked by Foro Nantik Lum de MicroFinanzas to write this foreword for the English version of their study on microcredit in Spain, I did not hesitate. I believe that this study comes at the right time and is very important for the microfinance sector not only in Spain but also in Europe.

The European Microfinance Network (EMN) is a network set up in 2003 to promote microfinance in Europe as a tool to fight social and economic exclusion and to promote microentrepreneurship and self-employment. As of end of 2006, EMN has 50 members from 20 countries. Because of its objectives, mission and activities, EMN is particularly interested by the publication of this research for the following reasons:

- It is in Spain that as of end 2005, EMN has the highest number of members, 10 in total with Fundació Un Sol Món, Obra Social “la Caixa”, Transformando, Banco Mundial de la Mujer, Cruz Roja, BBK, Métis, Surt, Pignus International and Foro Nantik Lum de MicroFinanzas. This very high number reflects the strong dynamism existing in this country in terms of microfinance development. This research comes at an important moment and underscores both trends and the exponential growth of the sector in the recent years. It gives very precise information and a clear analysis of what is happening.

- The model of development in Spain is extremely interesting for the rest of Europe. The report clearly describes the way microfinance has been able to develop rapidly thanks to the strong and unique support of the savings banks. This phenomenon is due mainly to their experience in financial intermediation and commitment to social work. Even though savings banks play a role in microfinance elsewhere in Europe, it is only in Spain that savings banks, in partnership with social organisations, have reached such scale. This partnership model, with strong links between the financial and social sectors is particularly interesting and enables better outreach to socially excluded people, involves a variety of organisations and thereby promotes microfinance to a wide range of actors for the benefit of everyone.

- Migrants and women represent a very high percentage of the clientele in Spain, which is again quite unique in Europe. EMN has identified these two groups as needing specific attention. EMN has two programmes implemented with its members to better understand how to serve these client groups. Women represent a much smaller proportion of microentrepreneurs served by microcredit in Europe when compared to the rest of the world. Whilst there are external factors affecting this trend, it has been shown that programmes tailored to women's specific needs can improve lending and entrepreneurship rates amongst women. Spanish microlending programmes are at the forefront of this effort in Europe. Migrants face a number of barriers in accessing finance and setting-up their microenterprises. Even so, they represent a quite high number of the clients of microfinance programmes in most European countries, particularly in Spain. Microfinance is perceived as a tool that is well-adapted to their needs. The intensive experience of Spanish organisations is very valuable and will help other European organisations to better understand how to work more effectively with these target groups.

- Microfinance in Europe is new. The oldest microfinance programmes started in late 80's, but the majority were set up after 2000 as is the case in Spain. In this context there are few studies that give a clear vision on what is happening in the sector. EMN believes that it is extremely important to be able to develop structured research of the sector and encourages organisations working in this field to participate in the research process. With such information, it will be much easier to know what is happening and then to understand what needs to be done to improve practice and results and to lobby governments and European institutions to improve the regulatory framework for microenterprise and microfinance institutions. The work of Foro Nantik Lum de MicroFinanzas in that field is crucial and has proven to be very relevant in increasing our knowledge of microfinance in Spain.

Microfinance in Europe is just at the beginning of its expansion in most countries. This is particularly true for Spain, but it is only there that the growth has been so rapid in recent years. It is why the experience in Spain is so interesting and relevant for other programmes in Europe. Thanks to this book and the work of all the practitioners in the field, one can be optimistic that more and more socially excluded people will have access to finance in order to start or develop their enterprise and hence be better economically and socially integrated in society, for their own benefit and for the benefit of all Europeans.

Paris, December 11 2006.

Philippe Guichandut
Executive Director

CHAPTER 1.

INTRODUCTION

Since the end of the seventies, when microcredit was born in Bangladesh, we have witnessed spectacular growth in the use of this instrument around the world.

Over the last ten years (1995-2005), microcredit has become a new paradigm in development financing – a new instrument not designed to relieve poverty on a temporary basis, but rather, to eradicate it through the granting of small loans to society's most underprivileged. These loans make it possible to set up small businesses that allow recipients to generate a regular source of income with which to pay back the capital. Thus, a self-sustaining system is created, enabling further outreach to the poorest of the world.

As in other countries, Spain has also seen interest grow in this new financial instrument geared towards society's most underprivileged members. Since the start of this decade, a rising number of financial and social institutions in Spain have begun to work in this field. Aiming to fight against social and financial exclusion – common in our Western societies – a larger number of microcredits has been granted annually in our country. Specifically, the figure has risen from an estimated volume of 1.1 million euros in 2001 to a total of 62.1 million euros in 2005.

The purpose of this book is to conduct an in-depth analysis of microcredit in Spain. To do this, the second chapter examines the main concepts within the field of microcredit and microfinance, focusing upon the main controversies. The third chapter studies the Spanish microcredit disbursement model and the main players involved in the process. The fourth and final chapter examines the current state of provision of microcredit to immigrants and the resultant social effects.

This book offers updated figures of microcredit granted in Spain, which come from:

- A data survey carried out during the first half of 2006[2] in collaboration with the European Microfinance Network (EMN). The survey

[2] Referred to as Survey 2006

was conducted on microcredit institutions in 12 Western European countries. It covered the most important aspects of microcredit activity, such as: general institutional information; target clients; loan size, terms and conditions; selection criteria; methodology of the granting of loans; complementary services for business development; operating performance and sustainability; financing sources; impact on social exclusion. In Spain, the Foro Nantik Lum de MicroFinanzas sent this survey out to 47 financial institutions and 70 Social Microcredit Support Organisations (SMSOs), of which responses were received from 11 and 22 organisations, respectively, representing a significant sample of all institutions working with microcredits in Spain today.

- A data survey sent in February 2005[3] to 8 financial institutions and 7 SMSOs, representing the main microcredit institutions in Spain at that time. This survey looked for: i) information on the network of SMSOs used by the financial institutions and; ii) information on criteria used by the financial institutions and the SMSOs to select microcredit projects and clients.

- Several workshops held at the Universidad Pontificia Comillas (Madrid), in which experts from financial institutions, SMSOs and academia took part with the purpose of debating and exchanging experiences.

Secondary sources were also used, mainly annual reports from savings banks and commercial banks, data from the Municipal Register, socio-demographic indicators from the Spanish National Statistics Institute (INE), Social Security statistics, reports and publications from the Bank of Spain and the Microcredit White Book drawn up by the Savings Bank Foundation (FUNCAS) in 2005.

As in many other countries, in Spain, microcredit has become a popular tool to fight against social, labour and financial exclusion, with the intent of boosting the standard of living of thousands of citizens, regardless of country of origin. As of now, more than ten Savings Banks offer microcredits, reaching close to 1,500 citizens.

[3] Referred to as Survey 2005 and included in Appendix II.

In concluding this introduction, we would like to express once again our gratitude to all those who have made this book possible.

First, we would like to thank all the institutions which have supported our research team: Fundación Nantik Lum, Universidad Pontificia de Comillas, Spanish Red Cross, Fundación ONCE, Deutsche Bank Group in Spain and Comunidad de Madrid.

Second, we would like to recognise the financial and social institutions which have shared information on microcredit activities. We would like to thank: Acció Solidària contra L' Atur, Agencia Desarrollo Local Ayuntamiento de Alcoy, Asociacion Tierra Nueva/Fundacion Valdocco, Ayuntamiento de Collado Villalba, Ayuntamiento de Santa Lucía de Tirajana, Banco Mundial de la Mujer (Women's World Banking in Spain), Banco Popular, BBK Solidarioa Fundazioa (BBK), Grupo Santander, Caja de Ahorros de la Inmaculada de Aragón (CAI), Caja de Ahorros de La Rioja, Caja Duero, Cámara de Comercio del Perú, Cámara de Comercio de Girona, CEAMI, Colonya-Caixa de Pollença, Consorci de Promocio Económica de Lleida, Cruz Roja Española, Economistas Sin Fronteras, EMFO Mollèt del Vallès, FIDEM, Fundación CajaGranada Desarrollo Solidario (CajaGranada), Fundación INCYDE, Fundación Mujeres, Fundación ONCE, Fundació Un Sol Món of Caixa Catalunya, GENUS, Ibercaja, IEPALA, Instituto de Crédito Oficial (ICO), Interarts, Obra Social "la Caixa" ("la Caixa"), MITA-ONG, Obra Social Caixa Galicia (Caixa Galicia), Omega, Promocio Económica de Sabadell, SECOT, Transformando Sociedad Cooperativa, Trinijove, and UATAE.

Third, we would like to thank the intern scholars who have collaborated with the Foro Nantik Lum de MicroFinanzas: Joyce Meng, Mauricio Pacheco, Laura Cordero, Ana Gárate, Myriam Sainz, Maria Luisa Mialdea, Esther Fernández, and Cesar Iván González.

Fourth, we would like to thank the European Microfinance Network, for enabling the survey carried out in the first quarter of 2006 and for distributing this publication.

And finally, we would like to thank all of those who have shown interest in the Foro's Research Monographs, and whose criticism and praise alike have encouraged us to continue our research in this fascinating field.

CHAPTER 2.

BASIC CONCEPTS

Since the seventies, and especially during the last decade, we have witnessed a spectacular growth of microcredit programmes around the world. Due to the reputation that comes from offering microcredit, many institutions have engaged in microcredit activities, without really knowing what the word microcredit actually means. Consequent of the explosion and the diversity of methodologies, confusion exists over microfinance terminology. The Spanish microfinance sector is no exception.

Therefore, prior to any in-depth analysis of the Spanish Microcredit sector, the Foro Nantik Lum de MicroFinanzas considers it relevant to summarise the main concepts used in microfinance. A straightforward and accessible glossary of terms not only fosters understanding of the various economic agents that operate within this complex world, but also introduces the main controversies in the microfinance community, and more specifically, the contested issues unique to Spain.

In regards to today's current controversies, one chief preoccupation stands out above the rest: Whether to aim to reach the poorest of the poor, or to aim for financial sustainability. Nowadays, there are many who claim that microcredit should indeed reach the poor, but not the poorest. As a matter of fact, many microfinance institutions are failing to reach the most vulnerable. According to these institutions, the poorest of the poor would not be capable of setting up a profitable business, and would therefore be incapable of paying back loans. The poorest should thus be approached via other charity instruments, such as grants, humanitarian aid or emergency relief funds. Additionally, defenders of this stance claim that it would be unfair to neglect the 'richest' poor, who are also excluded from formal financial systems. In fact, proponents of this view hold that through the development of a microentreprise middle class, employment amongst the most impoverished will increase, thereby boosting their socio-economic status. Major international and bilateral donors and large private retail banks believe in this position. The opposite stance, however, is taken by many NGOs, microfinance institutions and other social organisations with the goal of reaching the poorest of the poor.

This chapter aims to shed light on the debates over the definitions of key terms and concepts of microfinance. To do this, we have created five key concept 'blocks'. Within each block, the following will be analysed: first, the definition and second the main controversies and reflections, with emphasis on the Spanish market.

2.1. Microcredit and Microfinance

2.1.1. Microcredit

As a development financing tool, the core objective of **microcredit** is the reduction of poverty worldwide.

And yet, after three decades of growth in the use of microcredit on all five continents, confusion over the definition of microcredit still persists since not all organisations and individuals working in the field define the term uniformly. Some of the criteria used to define a microcredit include: loan size, target client segment (whether the client base has access to the formal financial system), loan methodology, and fund usage.

Moreover, the already wide range of opinions is continually expanding. Clearly, microcredit practices differ according to the diverse socioeconomic and cultural contexts such as those found in Latin America, Africa, Asia, the United States and Europe. Even within Spain, the use of microcredit by institutions varies greatly. In fact, some institutions provide "microcredit" to individuals who actually fail to meet the criteria of a potential beneficiary. For example, "microcredit" has been provided to individuals with mortgages, who are clearly economic agents who can access the formal financial institutions, and even to people who spend the loan on consumer goods, rather than on a productive investment.

In light of this plurality of criteria, in 2004, Muhammad Yunus published an article[4] which attempted to clarify this confusion. The Foro Nantik Lum de MicroFinanzas stands for the following definition of microcredit:

[4] Yunus, M. (2006): What is Microcredit?, Grameen Bank, www.grameen-info.org.

> *"Microcredit programmes extend small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families."*
>
> Definition adopted at the first Microcredit Summit, held in Washington D.C. in February 1997.

In other words, microcredit is a tool used to reduce differences in access to financial resources, and, consequently, a mechanism to achieve better living conditions for the poorest people. The ultimate aim is thus to enable small entrepreneurs in the most underprivileged social segments to obtain, under favourable conditions, the basic financial resources for the establishment of their businesses.

The term 'microcredit' includes the following main features (Lacalle, 2002):

i) Microcredits are small loans.

ii) Microcredits are granted on a short-term basis, usually for one year or less.

iii) Repayment periods are very short, and thus, the amounts paid back in each instalment are extremely small. Usually, repayment of principal and interest is made on a weekly or monthly basis.

iv) Microloans fund projects designed by the borrowers themselves.

Nearly all microcredit programmes in developing countries share the abovementioned characteristics. Microcredit granted in wealthier countries like Spain, however, are loans that are not quite as 'micro' in terms of monetary value, and have repayment terms adapted to the country's socio-economic reality. However, in both developing and developed countries, microcredit is a financing tool based on trust, rather than the traditional asset-based guarantee. By giving vulnerable groups a financial alternative to set up economic projects or small businesses (referred to as micro-businesses), microcredit generate self-employment and employment. Hence, by enabling clients to raise their standard of living and personal welfare, microcredit counters the effects of social and financial exclusion.

2.1.2. Microfinance

The concept of **microfinance** is broader than that of microcredit. Microfinance refers not only to loans, but to a whole range of financial tools offered to vulnerable members who operate outside of the formal financial systems.

In Spain, microfinance comes down to a single product: microcredit. However, in many developing countries, many other microfinance products are offered, such as savings products, insurance, pension plans, mortgage loans, etc. All of these products are designed to meet the needs and characteristics of the targeted population segment.

2.1.3. Reflections and clarifications about these concepts

Based on the general definition of microcredit provided above, some reflections and clarifications should be made in order to convey a more holistic understanding of microcredit as a development instrument:

1. The ultimate aim of any microcredit is to raise the standard of living of society's most vulnerable members – that is, to reduce poverty levels around the world. By providing the poor with resources to set up a small, profitable business, microcredit generates enough earnings to repay the original loan amount and boost the welfare of the client and his or her family.

2. Seeking to rectify financial exclusion suffered by millions of people around the world, microcredit bridges the disparity in access to financial resources, thereby enabling individuals with no chance of securing a loan to take advantage of the economic benefits of setting up a microenterprise.

3. Microcredits are loans, and hence MUST be repaid. Furthermore, the borrower has to return the principal plus interest. Microcredit encourages a new model of international development aid by adding a dimension of future financial viability and self-sufficiency. Through microenterprises, the client is not

forever dependent on grants or external aid. Microcredits are committed to creating a self-sufficient system.

4. Microcredits are small loans. The average amount of a microcredit varies widely, depending on the continent where it is granted. The typical loan in Asia ranges between 100 and 200 dollars, in Latin America it reaches around 1,000 dollars, in Africa, around 100 dollars, while in Europe the amount is about 10,000 dollars. Additionally, the loan operation in general is very straightforward.

5. Microcredits are loans granted to individuals who lack any type of guarantees or assets. During the Foro Nantik Lum de MicroFinanzas workshops, experts broached the issue that some institutions in certain countries do actually require guarantees. We, on the other hand, defend the original concept of microcredit as a loan to economic agents who, lacking any type of guarantee or collateral, have no way of accessing their countries' formal financial systems. However, moral guarantees can be required. Microcredit is based on the idea of trusting the borrower to return the loan, either because the business project provides an economic guarantee, the individual offers a promise of repayment, or because a solidarity guarantee exists. In fact, many believe that "the individual's dignity is the best guarantee of all". As Professor Muhammad Yunus has remarked on a number of occasions: the right to credit is a human right (Yunus, 1999).

6. As mentioned above, microcredits are loans, but loans can be lent out in a variety of ways. The main methodologies used to grant microcredits are individual loans, solidarity group loans, rotating funds and village banks[5]. Moreover, microcredits are not granted only by large microfinance institutions. They can also be managed and lent out via the community. In general terms, microfinance institutions use individual and solidarity group loans, whereas communities usually grant loans in the form of rotating funds and village banks.

Having examined the defining characteristics of microcredits, it becomes evident that microcredit operations do not necessarily have to be set up, executed, and managed in the same way. Aspects such as the amount of capital, term structure, amortisation fees and interest rates differentiate microcredit from one country to another.

[5] For more information on how each of these methodologies work, see Lacalle, M. (2002).

2.2. Social exclusion, Poverty and Financial exclusion

As indicated above, the ultimate aim of microcredit is to fight against poverty via the reduction – or, ideally, elimination – of financial exclusion, thereby facilitating social inclusion and improving the welfare of millions of individuals. This section will attempt to define the concepts of social exclusion, poverty and financial exclusion, which lie at the heart of the microcredit system.

2.2.1. Social exclusion

Social exclusion is a broad concept which refers to restricted access, with a certain aspect of permanence, to social rights, such as the right to decent standard of living, or more specifically, the right to a job, housing, healthcare, education, financial resources, a community-based life, and political participation. In turn, the ability to exercise these social rights depends on the way social services are provided or on the degree of vulnerability of a certain citizen's economic, social and political situation. The end-result is that people who experience social exclusion feel marginalised from society, and do not consider themselves citizens in the full sense of the word.

Social exclusion is a very recent concept. The first references can be found in French literature dating back to the sixties. However, its use did not become widespread until the nineties. In fact, the first European public policies to counter social exclusion were made official in the March 2000 Summit in Lisbon and Feira. Until that point in time, poverty was used to describe exclusion-related situations. Nevertheless, these two concepts are not identical. The following section attempts to elucidate the differences between poverty and social exclusion.

2.2.2. Poverty

Traditionally, **poverty** has meant a chronic lack of material resources. Social exclusion, however, cannot be attributed to a single factor. As mentioned earlier, social exclusion is a multi-dimensional phenomenon, featuring a chronic lack of material resources, degraded social relationships and a loss of identity or of the ability to control one's social, cultural or physical surroundings. Consequently, the concept of social exclusion not only includes material and economic inequalities – inherent to the concept of poverty – but also other more social deficiencies, such as unemployment or unstable employment, limited education, lack of decent housing, bad health conditions, a lack of stable, supportive social relationships, and the absence of family ties (Subirats, 2004).

Although a major lack of material resources explains the vast majority of social exclusion cases, it is essential to acknowledge that not all forms of social exclusion stem from a material deficit.

The concept of poverty refers to a very powerful type of exclusion. Even though international development organisations – including the World Bank – ultimately define poverty as "A pronounced deprivation in well-being"[6] (World Bank, 2000:15), statistics assess poverty namely on income levels. Although there is no universal criterion for measuring poverty, a distinction is usually made between absolute or extreme poverty, and relative poverty.

Within the framework of developing countries, *absolute or extreme poverty* refers to all individuals who live below the poverty line set at a dollar a day (UNDP, 2004). According to the latest figures released by the World Bank, of 6.2 billion world population, just under half (almost 2.8 billion) live on less than two dollars a day, and a fifth (1.1 billion) live in extreme poverty, with less than one dollar a day[7]. Although the proportion of the population surviving on less that one dollar a day has decreased over the last two decades from 28.4% in 1987 to 21.1% in 2001 (percentages adjusted for population growth), the absolute number of poor people has remained steady at around 1.1 billion (see Table 2.1).

[6] "To be poor is to be hungry, to lack shelter or clothing, to be sick and not cared for, to be illiterate and not schooled." (World Bank, 2000: 15).
[7] Figures from 2001 (World Bank, 2005).

Table 2.1. Number of people living on less than 1 dollar/day (millions)			
	1987	1993	2001
East and Pacific Asia (excluding China)	426	415	271
Europe and Central Asia	2	17	17
Latin America and the Caribbean	45	52	50
North Africa and the Middle East	7	4	7
South Asia	473	476	431
Sub-Saharan Africa	219	242	313
TOTAL	**1,172**	**1,206**	**1,089**

Source: World Development Indicators 2005, World Bank (2005).

The figures above confirm that today, unacceptable levels of extreme poverty still exist around the world. These levels are found mainly in the populations of Latin America, Asia and sub-Saharan Africa, where the poor live a life degraded by illness, illiteracy, malnutrition and misery. Furthermore, as can be seen in Table 2.1, these figures have failed to improve in certain areas around the world, as in the cases of North Africa, the Middle East and South Asia. Even more deplorable, conditions have taken a serious turn for the worse in sub-Saharan Africa. Thus, the foremost goal of the UN Millennium Development Goals is to “reduce by half the proportion of people living on less than one dollar a day by 2015” (UNDP, 2003:1).

Within the European Union, the most commonly accepted benchmark for measuring poverty is relative country-based poverty threshold. In context, families and individuals are considered poor if they have an equivalised disposable income below the risk-of poverty threshold, which is set at 60% of the national median equivalised disposable income (after social transfers). In 2001, 15% of the population of the current 25-member European Union were at risk of poverty (Eurostat, 2005).

In Spain, average annual disposable income totals 13,729 euros, meaning that the poverty, or exclusion, threshold hovers around 8,232 euros. According to these figures, of the 14 million households in Spain, nearly three million live below the relative poverty line[8].

[8] Source: Paper entitled “Las Cajas de ahorros ante la exclusión social”, presented by Carlos Balado García (Director of the CECA Division of Social Work and Institutional Relations) in the International University of Andalusia’s summer course on “Microcredits and Savings Banks”, Baeza, June 27, 2005.

2.2.3. Financial exclusion

Financial exclusion refers to a lack of access to the products and services offered by the formal financial system that is, when an individual has to rely solely on cash because he or she cannot gain access to financial products enabling alternative payment or savings methods. This lack of access can be caused by the physical impossibility of reaching a financial institution (when there are no branches close to a town or village because the national financial system is not sufficiently developed), or by an individual's inability to approach a formal financial institution (when the individual fails to meet the prerequisites of potential customers). In some cases, financial exclusion entails a form of psychological vulnerability, in which the individual undervalues his or her worth due to a lack of education, and thus does not feel comfortable with the idea of entering a bank. These people feel awkward and unfit to access the formal financial system.

In general, one can distinguish partial financial exclusion from total financial *exclusion*. The former refers to having access to certain financial products such as debit cards or bank accounts, but not others like bank loans. In case of the latter, it is impossible to access any financial service or product, with only informal financial services – moneylenders, neighbours or relatives – as an option. The result is the total dependence on cash for credit, savings, insurance, remittances and payment methods. This is a situation in which the individual has no chance to grow or develop. Even if his or her most basic needs were covered, the person has no growth potential. Financial exclusion is, therefore, the first rung on the ladder of social exclusion.

In many countries, the formal financial system does not provide services to the poorest segments which constitute a majority of the population, thus negatively impacting national growth and development. This phenomenon can be observed in both developing countries and in the world's most advanced nations. According to the report on financial exclusion published by the Joseph Rowntree Foundation (1999)[9], at the end of the nineties, 7% of all UK families (1,750,000 families) used no financial products whatsoever – not bank deposits, credit cards, or savings / checking accounts – and 19% of UK families (close to 4 million) used only one or two financial products, usually a savings or checking account to pay bills and receive transfers. As for the rest of Europe, the situation is not much different. According to the report,

[9] Kempson, E. and Claire W. (1999): *Kept out or opted out? Understanding and combating financial exclusion*, Eds. Joseph Rowntree Foundation and Policy Press, United Kingdom.

around 7% of families at the bottom of the social scale in various European countries have no access to the formal financial system – in financial matters, they are marginalized.

2.3. Interest Rates, Operating and Financial Self-Sufficiency, Scale and Depth of Outreach

2.3.1. Interest rates

2.3.1.1. Definition of the concept and a few reflections.

According to the Dictionary of the Royal Spanish Academy of Language (RAE, 2004), the term **interest** means “profit, use, earning”, with a second, more explicit definition of “gain produced by capital”[10].

Money costs money. In short, “other people’s money comes at a price, and that price is interest” (Muñoz Orcera, 2001: 196). When we talk about loan interest, we refer to the growth rate of the capital lent out, expressed as a percentage over a given period. When the lender provides capital to the borrower, the interest rate is the percentage levied on the capital which the borrower has to return at the end of the established period. If, for example, the annual interest rate is 10% on an original loan of 100 euros, the borrower must return 110 euros at the end of the year.

Loan interest rates differ among countries and individuals. Many macroeconomic factors come into play, such as national inflation, income level, or the country’s exchange rate risk[11]. Likewise, interest rates also depend on personal characteristics of the borrower, such as the credit risk involved or the likelihood of repayment of borrowed capital.

Financial institutions set loan interest rates by taking the country’s official rate as a benchmark and adding a premium based on the borrower’s credit risk, determined by his or her assets and the intended use of the loan.

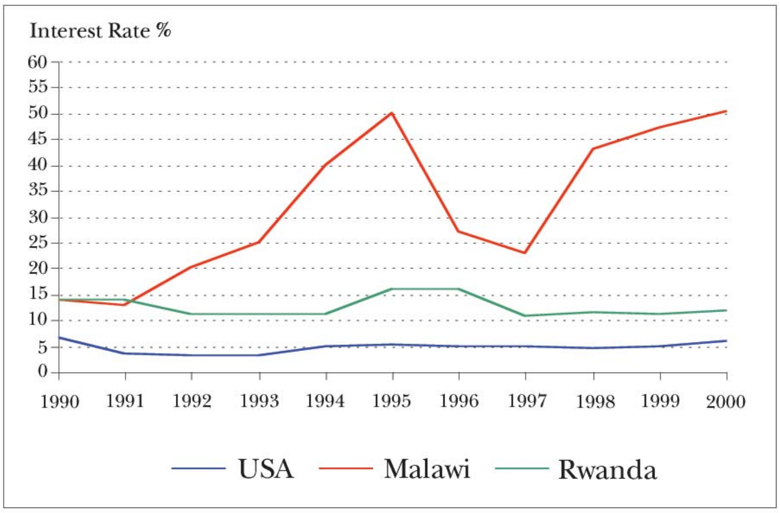
Likewise, the official rate – also known as the discount rate – differs from country to country, contingent on the national macroeconomic situation. A country that enjoys greater stability in terms of income,

[10] Authors’ translation.

[11] A thorough analysis of the influence of currency exchange rates on loan interest rates is beyond the scope of this book. On the other hand, the end-users of microcredits (“the poorest of the poor”) are not directly affected by currency depreciation since they hold no investments in the money market or other markets. The influence of currency depreciation is indirectly felt through another factor – inflation – which is among the topics examined in this study.

inflation and exchange rate, would in theory have a lower interest rate than a country with a less stable economic profile.

Graph 2.1.
Discount interest rate performance in the United States, Malawi and Rwanda (1990-2003)



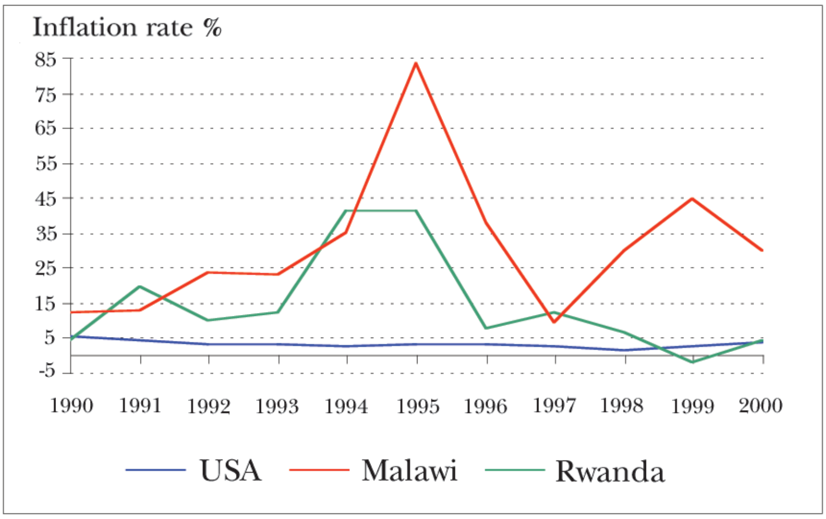
Source: International Financial Statistics, IMF (CD-Rom version).

As can be seen in Graph 2.1., interest rates in the United States have, over the 10 years examined, remained lower than in Malawi and Rwanda. An individual who applied for a loan in the United States would have to return the principal plus interest which, over the course of the decade, hovered around 6% (in 1990, the rate was 6.5% and in 2000, 6%. In 2003, however, rates stood at 2% as a result of expansionary monetary policy). Over the same decade, however, a Malawian would have paid 14% and 50% in interest in 1990 and 2000, respectively (40% in 2003). In Rwanda, rates were at 14% and 12%, respectively (15% in 2003). If we carry out this analysis for 10 years, assuming that interest accumulates annually and all payments are deferred until the end of the period, the result is even starker: A US citizen who took out a 100-dollar loan in 1990, would have to pay back 155 dollars in interest and principal in 2000, whereas the Rwandan would have to pay back 321 units of his or her national currency (Rwandan francs), and the Malawian, 1,756 monetary units (kwachas)[12].

[12] These calculations were performed with compound interest, which means that interest is not only calculated on the initial principal, but also on the accumulated interest of periods.

Interest rates are linked to each country's inflation rate.[13] With higher national inflation the volatility of prices for goods and services increases, leading to greater instability and difficulty in the acquisition of goods.

Graph 2.2.
Inflation rates performance in the United States, Malawi and Rwanda (1990-2003)



Source: International Financial Statistics, IMF (CD-Rom version).

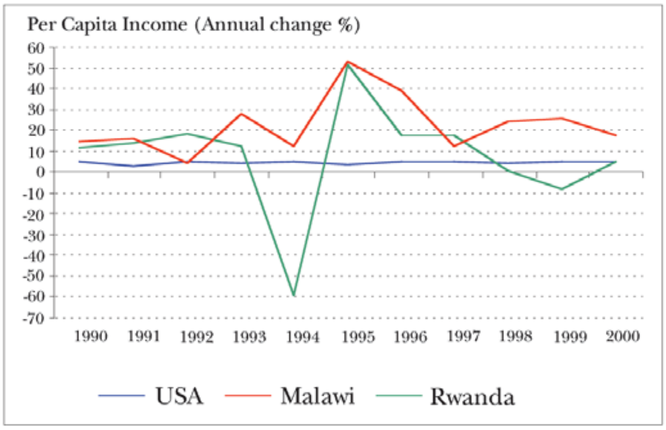
As illustrated in Graph 2.2, in the early nineties, inflation rates were roughly similar in all three countries (in 1990: 4.2% in Rwanda, 5.4% in the United States and 11.8% in Malawi). However, whereas the United States has enjoyed a certain degree of stability over the 10 year period, Malawi and Rwanda have witnessed major peaks and troughs in their levels of inflation (reaching levels of 35-45%, and even 83% in Malawi in 1995), causing the erosion of nominal purchasing power. The rise in inflation over the decade has also led to different results in each of the countries. According to Consumer Price Index (CPI) figures, the basket of goods which cost 100 local currency units in 1990, cost 132 dollars in the United States in 2000, whereas in Rwanda it amounted to 381 francs, and in Malawi, 1,544 kwachas.

[13] It should be recalled that inflation exists when the overall level of prices rises continuously over time. So, for example, if a basket of goods and services costs 100 euros today and 110 euros a year from now, the inflation rate would be 10%.

A high inflation rate or a high interest rate on loans does not necessarily indicate a loss of real purchasing power if it is accompanied by an increase in wages or income. An individual who earns 100 today can purchase an item that costs 100. If, after a year, the item is priced at 160, the individual must earn 160 in order to buy the same item. That is to say, if inflation is 60%, the increase in salary or income should be equivalent to prevent a real erosion of purchasing power. Likewise, from a loan standpoint, someone who takes out a loan for 100 will be able to pay back 160 (60% interest rate) in a year's time, if the original investment of 100 has generated an income or salary of 160 (60% rise in income).

Bearing in mind that we do not possess data on salary increase rates in the three countries studied here, we will instead use *Per Capita Income* growth rates. Graph 2.3 shows the evolution of the annual growth rate for *Per Capita Income* in the three countries.

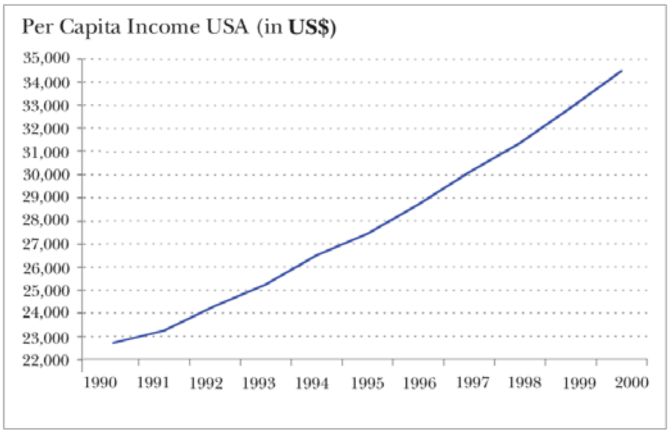
Graph 2.3.
Per Capita Income annual change rate in the United States, Malawi and Rwanda (1990-2000)



Source: International Financial Statistics, IMF (CD-Rom version).

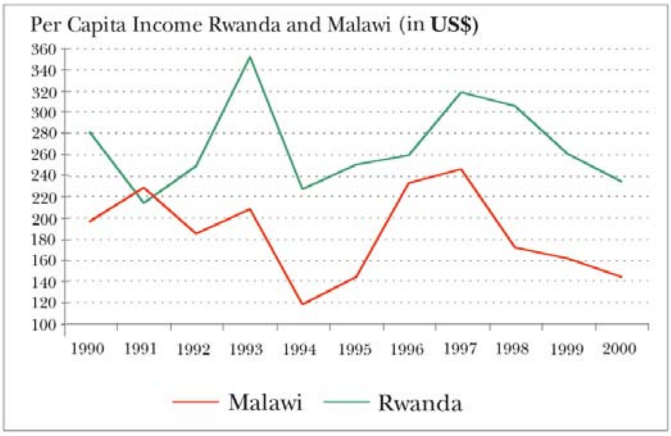
As shown, the United States has witnessed stable growth in its *Per Capita Income* at approximately 5% annually. Malawi has boasted positive growth every year, with rates as high as 50% from one year to the next. Rwanda, however, is the most volatile country with the most unstable performance level, with annual growth spurts of 50% and declines of 60%. However, since this graph reflects each country's local currency, exchange rate may have distorted *Per Capita Income* levels. If we carry out this same analysis in US dollars, we can correct for foreign exchange effects in countries' *Per Capita Income*.

Graph 2.4.
Per Capita Income (US dollars) in the United States (1990-2000)



Source: International Financial Statistics, IMF (CD-Rom version).

Graph 2.5.
Per Capita Income (US dollars) in Malawi and Rwanda (1990-2000)



Source: International Financial Statistics, IMF (CD-Rom version).

As Graph 2.5 demonstrates, the YoY change in per capital income (expressed in dollars) of the two African countries is largely characterised by decline. In 1990, a Malawian had an income of 196 dollars, and in 2000, a mere 143 dollars. Likewise, a Rwandan who had an income of 280 dollars in 1990 only had 233 dollars in 2000. In comparison, the average US citizen with an income of 22,694 dollars in 1990 had 37,423 dollars in 2000.

There are many economists who defend the Purchasing Power Parity (PPP) theory, which argues that due to the linkages among the interest rate, exchange rate and inflation rate, in the long run, exchange rate fluctuations should not have any impact on a country's real prices. A drop in the national currency's nominal purchasing power (an increase in domestic inflation) causes a currency's depreciation on the money markets. Consequently, the difference in interest rates in two countries should be equal to the difference in inflation rates forecasts. (Krugman and Obstfeld 2001; Dornbusch and Fischer 1991; Belzunegui, Cabrerizo and Padilla 1992).

If we explore the actual case of the three countries studied here, the following conclusions can be made:

1. In the United States, an average citizen with an income of 100 dollars in 1990 was earning 152 dollars by 2000. If the basket of goods used to calculate the CPI cost 100 dollars in 1990, the same basket would cost 132 dollars in 2000, meaning that the US citizen would not only earn enough to pay for the basket, but also manage to save 20 dollars. On the other hand, if in 1990 he or she had applied for a 100-dollar loan, he or she would have to pay back 155 dollars in 2000. With his or her current level of income, the citizen would be able to cover 98% of the loan.

2. In Rwanda, an average citizen earning 100 Rwandan francs in 1990 would earn 291 francs in 2000. If the basket of goods and services cost 100 francs in 1990, the same basket would cost 381 francs in 2000. Hence, the Rwandan would not earn enough to afford the original basket of items, and would therefore have to acquire 90 additional francs in order to enjoy the same level of purchasing power. And, if he or she had taken out a loan for 100 francs in 1990, he or she would have to pay back 321 francs in 2000. At the current income level of 291 francs, the citizen would be able to cover only 90% of the loan.

3. In Malawi, an average citizen who earned 100 Malawan kwachas in 1990, earned 1,594 kwachas in 2000. A basket that cost 100 kwachas in 1990 would cost 1,544 kwachas in 2000, signifying that the Malawian would have earned enough to be able to buy the same basket. If the Malawian had applied for a 100-kwacha loan in 1990, however, he or she would have to pay back 1,756 kwachas in 2000. At his/her current level of income, he or she would be able to cover only 90% of the loan.

In short, while rising income levels in the United States make it possible to maintain, and even increase, purchasing power, thereby enabling citizens to repay their debts, in countries like Rwanda and Malawi, the situation is quite different, with the scenario in Rwanda more dismal than in Malawi. Additionally, this circumstance is further aggravated by two factors common to developing countries that developed countries such as the United States do not encounter:

- The range of loan products in developing countries is not the same as in developed countries. An African does not enjoy the same ease of access to loans as a US citizen does.

- In the event that an African were able to take out a loan, the rate of interest would be far above that indicated in the case studies above. As mentioned previously, financial institutions add a lender-risk premium on top of the discount rate. A citizen of Rwanda or Malawi who applies for a loan would have to pay a rate of interest far above the discount rate (up to 70 or 80%, at times), since his or her credit risk is greater than that of a US citizen.

In summary, we can assert that there is a clear need to introduce a financial instrument accessible to society's most impoverished members. This would broaden access to financing and credit so that an African farmer, for example, can cultivate his or her land and rise above dismal living conditions. By purchasing irrigation pumps, seeds, fertilizers, etc., said farmer could better exploit his or her fields and market his or her products. Likewise, the interest rate applied in microloans should be similar to that of the official rate so that the beneficiary can retain some profit from his or her business after returning both the principal and interest.

2.3.1.2. Main stances on 'interest rates'

As we confirmed at the expert workshops discussions, a long-standing debate has consistently persisted about the interest rate that should be applied to microloans. On one hand, some microfinance practitioners defend very low interest rates – even close to zero – since the beneficiaries come from especially vulnerable groups. On the other hand, others support interest rate levels similar to market rates, or even slightly higher, in order to guarantee the sustainability of the microfinance institution.

This debate has raged ever since the first modern microcredit programmes were created in the seventies. In the seventies and eighties, many microcredit institutions worked with subsidies or donations, and thus offered microcredit with interest rates that were either non-existent or close to zero. For a long time, the consensus was that interest rates should be subsidised and remain below market levels. The result was that after a few years of operation, when outside funding dried up, many of these institutions ended up undercapitalized and at the mercy of their donors.

In general, the main arguments against subsidised rates are:

- Because they distort reality and prevent the project from becoming viable on a long-term basis. Microfinance institutions that provide loans based on subsidised funds ignore the main rules which govern the financial system. Hence, loans based on subsidised funds accelerate the failure of microcredit programmes since the unreal cost structure and dependency on outside resources reduce financial self-sufficiency and sustainability. In short, with below-market interest rates, microfinance institutions cannot cover costs, and, therefore cannot ensure that new microcredits can be granted in the future. In the words of Castelló (1995:95), "ironically, a policy of subsidised rates not only means the programme is doomed to disappear due to lack of long-term viability, but also creates a lack of responsibility on the part of the poor businessman that the programme is trying to help"[14].

- Because clients who receive subsidised resources may not have the incentive to pay back the money, believing that the institution has international donors to cover the funds. In general, this type of policy leads to the destructive moral hazard of 'free money'.

- Because applying market rates to loans treats all individuals equally. Not using subsidised rates makes a point of preserving equality and ensuring a same level of dignity.

On the other hand, the groups who claim that microcredit interest rates should be limited counter with the following arguments:

[14] Authors' translation.

- Due to the social nature of microcredit, low-interest rates encourage usage and allow clients to increase their standard of living by spending more of their profits on goods and services.

- Microcredit should be subsidised so the burden of sustaining the institution's operating and financial expenses is not placed on the clients who come from the poorest segments of society[15].

Even though most microfinance practitioners agree that rates should be unsubsidised and similar to that of the market – or even a bit higher to guarantee the institution's future viability – other social and humanitarian agents and institutions claim that a microfinance institution at the service of society's most underprivileged sectors should in no case charge interest rates that exceed that of the market.

[15] In Spain, subsidies come from the Social Work division of a savings bank or government institutions.

How the interest rate applied by a microfinance institution is calculated

According to a simplified CGAP (CGAP, 2002) model used to determine a sustainable interest rate that finances a microfinance institution's growth through commercial funds, the effective annual interest rate (I) is derived from a five-variable function, in which each component is expressed as a percentage of the average existing loan portfolio:

- Administrative costs (AC).
- Provisions for irrecoverable loans (bad debt index) (BD).
- Cost of funds (CF).
- Desired capitalization index (CI).
- Investment revenues (IR).

$$I = (AC + BD + CF + CI - IR) \; / \; (1 - BD)$$

According to the CGAP:

- The administrative costs for an efficient, mature institution range between 10%-25% of the average loan portfolio.
- The bad debt index at high-performing institutions stands at around 1%-2%.
- To determine the cost of funds, the Weighted Average Cost of Capital (WACC) is calculated as a function of deposits, loans and equity.
- The capitalization ratio represents the real net earnings – above what is needed to offset inflation – that the microfinance institution aims to reach. Given that a financial institution's debt capacity is limited by its equity, the best way to increase its own capital is to generate profits. To foster long-term growth, a capitalization rate of at least 5%-15% is recommended.
- Investment revenue is the performance expected from the institution's financial assets in addition to the earnings from the loan portfolio.

Depending on loan and amortization structure, a monthly interest rate can lead to a higher effective interest rate. The real cost to the lender and real earnings for the lending institution can rise considerably through the use of the following practices:

- Calculating interest off the loan's face value (fixed interest rate method) rather than on the diminishing balance as the principal is gradually paid off.
- Requiring that interest be paid at the start, discounted from the value of the paid capital, instead of distributing it over the life of the loan.
- Applying commissions in addition to interest.
- Establishing a monthly interest rate, but collecting payments on a weekly basis.
- Requiring that a part of the loan be deposited with the lending institution as compulsory savings.

2.3.2. Operating self-sufficiency and financial self-sufficiency

The concept of **self-sufficiency** (or, what is often referred to as sustainability) involves the capacity to survive over time by rationally using operational resources, thus ensuring that services remain available for future clients. In short, self-sufficiency makes it possible to satisfy 'present needs without putting the needs of future generations at risk'.

Self-sufficiency or sustainability entails independence from sources of subsidised, external resources (donations). In seeking self-sufficiency, the microfinance institution does not set an institutional objective to gain top earnings, but rather, to ensure the future viability of the programme.

More specifically, self-sufficiency can be defined as follows:

- An institution has achieved **operating self-sufficiency** when, by means of its revenues, it can cover all its operating or set-up costs.

- An institution achieves **financial self-sufficiency** when, by means of its revenues, it can cover not only its set-up and operating costs, but also all the financial costs of its capital. Therefore, a lending operation is self-sufficient in financial terms when it covers operation costs, the cost of funds (including the opportunity cost), provisions for non-performing loans and the cost of inflation. If the institution's future growth is to be ensured, an additional margin needs to be added.

Given the characteristics of a microfinance institution's typical clientele and the type of loans granted (a large quantity of small loans), transaction costs and per unit administration costs are very high compared to interest income. Under these conditions, there are only two ways to achieve financial self-sufficiency:

- By lowering operating costs. In streamlining their operations, many microfinance institutions have been able to adapt to the characteristics and needs of their target market. For example, in aiming to reduce costs, they utilise very simple application procedures, reduce office furniture and salary expenses at the branches, encourage the decentralization of decision-making to eliminate bureaucracy, and implement IT systems suitable for large volumes of data and operations.

- By setting interest rates that cover all the abovementioned costs.

Based on a change in attitude about subsidies and donations, the concept of self-sufficiency emerged quite recently. Only a few decades ago, microfinance practitioners acknowledged the need to find financially viable alternatives so that programmes could be viable on their own and not remain dependent on external funds. This change was the direct result of a lack of long-term sustainability and the limited scope of the previous model (Rhyne and Otero, 1998). In the wake of the failure of a large number of official programmes based on donations and subsidies, the importance of achieving financial self-sufficiency became obvious. Over the past 35 years, many of these programmes stirred great hopes when they came into being, only to peter out after a while, leaving most of their clients with no access to formal loans, savings products or any other necessary financial service (Zander, 1997).

In general, self-sufficiency can be categorized into four levels, each one characterized by the following elements (Rhyne and Otero, 1998):

Level One.
- Funds largely stem from subsidies.
- Loans provided at rates far below the market rate, meaning that in real terms, interest rates charged are negative.
- High operating costs.
- Earnings fail to even cover operating costs, resulting in total dependence on new donations.

Level Two
- Reliance upon external financial support, although complete dependence on subsidies has been removed from the programmes.
- Loans provided at rates slightly below the market.
- Lower operating costs than that of Level One.
- Fees and interest income cover the opportunity cost of the funds and a portion of operating costs, but subsidies are still required to cover the remaining operating costs and losses on loans.

Level Three
- Subsidies mostly eliminated from the programme.
- Loans provided at market rates.
- Lower operating costs than that of Levels One and Two due to improved efficiency, economies of scale, and most importantly,

the adoption of strategies in tune with the reality of microfinance. For example, streamlining procedures through the systematization of administrative information and improvement of financial administration.
- All operating costs are covered. Hence, until this level is reached, large-scale operations are infeasible.
- Many well-known microfinance programmes operate at this level, including many ACCION programmes and the Badan Kredit Kecamatan.

Level Four
- Client savings, fees, interest payments and funds from formal financial institutions at commercial rates finance the entire programme.
- Revenues cover opportunity costs, operating costs, provisions for non-performing loans and inflation risk.
- Very few programmes have managed to reach this level. The most familiar cases include Grameen Bank and BRAC of Bangladesh, as well as Indonesia's Rakyat Bank.

Today, there are still some authors who believe that complete self-sufficiency cannot be achieved (Carpintero, 1998; Johnson and Rogaly, 1997; Buckley, 1997). Conversely, other sources claim the opposite. For example, according to the Microcredit Summit Campaign 2003 report, financial self-sufficiency can indeed be achieved, as exemplified in the work of 66 microcredit institutions, 18 of which operate in extremely poor areas (Daley-Harris, 2003).

As we stated at the start of this study, microcredit constitutes a new model of international development aid. With the goal of creating a self-sufficient system in order to expand future client outreach, microfinance embraces a new vision of future financial viability and the elimination of endless dependence on subsidies or foreign aid.

2.3.3. Scale and Depth of outreach

Scale and *depth of outreach* are linked to the concept of financial self-sufficiency. **Scale** refers to the size of a microfinance institution's client base, while **depth of outreach** refers to the degree of poverty of a microfinance institution's clients. Although loan size is a vague method of measuring an institution's depth of outreach, it is predominantly used in practice since as a general principle, the poorest clients receive the smallest loans.

Debate: "Focusing on reaching the poorest of the poor" versus "operating and financial self-sufficiency"

There is a large body of academic literature devoted to the debate on whether a microfinance institution should focus on reaching society's poorest members or on good operating and financial performance.

To simplify matters, we can state that the ***depth of outreach approach*** champions the idea of providing microcredits to the poorest of the poor who are considered credit worthy and capable of setting up a profitable business to enable loan repayment. Loan repayment can be further facilitated through branch proximity to impoverished areas, 'solidarity guarantee' mechanisms or incentives for future loans, social pressure networks or complementary training and support services – all of which have been successfully implemented by a number of NGOs and microfinance institutions. The main criticism of this approach is its heavy dependence on subsidies, since not all operating and financial costs are covered by the interest rate. However, institutions like the Grameen Bank, for example, have shown that they are capable of offering sustainable microcredit programmes to society's poorest without usurious interest rates and dependence on outside donations. Other institutions like the Spanish Red Cross in Rwanda have used a form of rotating funds – subsidised initially and with zero interest rates – to prove that perfectly sustainable microcredit programmes can indeed be created, provided that the entire community makes an effort to repay the loan. The Microcredit Summit Campaign, Grameen Bank, the Bangladesh Rural Advancement Committee (BRAC), USAID, in addition to many other institutions, support this approach.

The ***operating and financial self-sufficiency approach*** is based on channelling microcredits to the highest possible number of microbusinesses (greater scale) in order to achieve economies of scale and reduce dependency on subsidies. Defenders of this approach believe that this methodology best reaches the ultimate goal of reducing poverty. To cover operating costs, the cost of funds and inflation risks, institutions often apply interest rates even above that of the market . Furthermore, these institutions offer a reduced range of cost-intensive support and follow-up services for microentrepreneurs. In attempting to ensure loan repayment and financial sustainability, however, this approach can at times lead to a distancing between microcredit providers and the poorest members of society, favouring instead groups that belong to a higher social class. The champions of this focus include aid agencies such as the Inter-American Development Bank, the World Bank or the Consultative Group to Assist the Poor (CGAP).

2.4. Personal Guarantee, Collateral, Arrears, Default, and Grace Period

2.4.1. Personal Guarantee and Collateral

According to the Dictionary of the Royal Spanish Academy of Language, a **personal guarantee** is a "signature found at the bottom of a loan application to answer for the payment of a debt in the event that the person with the original liability is unable to do so"[16].

Hence, a guarantor or co-signer is a person who assumes responsibility for the payment of the borrower's debts on the occasion of default. Usually, the guarantor or co-signer is related to the borrower. As a result, the lending institution enjoys greater security of repayment, because if funds cannot be collected from the original borrower, the institution can recover the loan balance from the guarantor. In nearly all formal financial systems, an individual who lacks a guarantor faces difficulties in obtaining a loan.

According to the Dictionary of the Royal Spanish Academy of Language, **collateral** is defined as "something that insures and protects against a determined risk or need"[17].

Muñoz Orcera (2001) draws a distinction between two main types of collateral:

a) Personal collateral: All the debtor's present and future assets serve as collateral for the repayment of the loan.

b) Tangible collateral: Specific belongings in the debtor's possession (property, investment assets, etc.) are singled out as collateral for the debt repayment. The most common forms are:

- Mortgage: Property owned by the debtor is set as collateral by registering it in the public registry. The property remains in the debtor's possession, but in the case of default, the creditor can sell it and recover the loan from the earnings.
- Pledge: The most common forms are shares and bonds. In the event of default, ownership of the assets transfers to the creditor who would then be able to sell them off and recover the loan.

[16] Authors' translation.

[17] Idem.

Tangible collateral differs from a personal guarantee or co-signing in that an asset rather than a person answers for a loan. In the event that the borrower is unable to repay the loan, ownership of the collateralised asset transfers to the lender, who can then make the necessary arrangements to recover the debt.

Within the microcredit framework, the generic term 'collateral' encompasses both personal guarantee and tangible collateral. Throughout the world, and especially in poor countries, there are millions of people who not only lack tangible assets but also cannot find a relative or friend who can act as a guarantor. Consequently, these people do not have access to formal credit. In light of this, microfinance programmes often use the *Solidarity Group Lending* methodology, in which a group of people provide *joint collateral*[18], that is, all members of the group jointly guarantee that loan repayments are made on time. Since responsibility is shared and the candidacy of the entire group for future loans depends on each individual's accountability, if for any reason, a member were to have trouble repaying the loan, the remaining members would provide assistance. As a result, groups form on the basis of trust, encompassing friends or acquaintances. In the vast majority of the most traditional economies of Latin America, Asia and Africa, the worst punishment conceivable is personal disgrace witnessed by relatives, friends and acquaintances. In light of this social reality that exists in many developing countries, the social pressure exerted by joint collateral is very effective in preserving accountability (Floro and Yotopoulos, 1991, and Berenbach and Guzmán, 1993).

2.4.1.1. A few reflections and debates debate on the above concepts

As in the case of interest rates, a major debate is being waged on the importance of having guarantees or collateral to back up micro-businesses.

At the Foro Nantik Lum de MicroFinanzas expert workshops, some participants revealed that many microfinance institutions, especially in Latin America, currently require collateral guarantees from microcredit applicants. The main arguments put forth to defend guarantees are as follows:

- A microcredit is a debt instrument, and therefore, repayment must be ensured.

[18] This take on the 'mutual guarantee' emerged in the seventies. It was first described by Farbman (1981), Ashe (1985) and the World Bank (1985), and was more extensively researched by Otero (1986) and Lacalle (2002).

- Collateral plays a key role in increasing client responsibility and accountability

Conversely, other experts and institutions claim that most people who apply for microcredit lack possessions, which is the fundamental reason for their exclusion from the formal financial system. Chances are, their home is the only collateralizable asset. As a result, critics argue that since mortgage collaterals potentially jeopardize an essential asset[19], collateral requirements are inherently unfair.

The Foro Nantik Lum de MicroFinanzas believes that microcredit institutions should not require any type of collateral – either tangible or personal – since microcredit was created precisely to provide access to credit to the poorest of the poor who have nothing at all. The *Solidarity Group Lending* method, however, offers a potent alternative which bolsters the chance of repayment. The only collateral that should be required is a moral guarantee, founded on faith in a group or trust in the individual and the financial viability of his or her project. In fact, in some high profile institutions like the Grameen Bank, group-based guarantees are no longer necessary. Empirical experience has proven the advantages of granting uncollateralised microcredits. And in the event of difficulties, the institution refinances or modifies the client's payment schedule.

2.4.2. Arrears and Default

The Dictionary of the Royal Spanish Academy of Language defines **arrears** as "slowness, delay, hold-up"[20]. According to Calvo-Flores Segura and García Pérez de Lema (1997:14), *solvency* is "the availability of funds to meet debts incurred from day-to-day management, and the ability to obtain profits and generate cash flow", whereas *insolvency* is "an entity's inability to pay its debts. An initial period of insolvency can be overcome by deferrals, or else result in a business crisis leading to bankruptcy"[21]. Hence, *arrears* is defined as the initial period of insolvency, in which the borrower has difficulty repaying his or her debts. Arrears can lead to definitive insolvency, in which the borrower defaults.

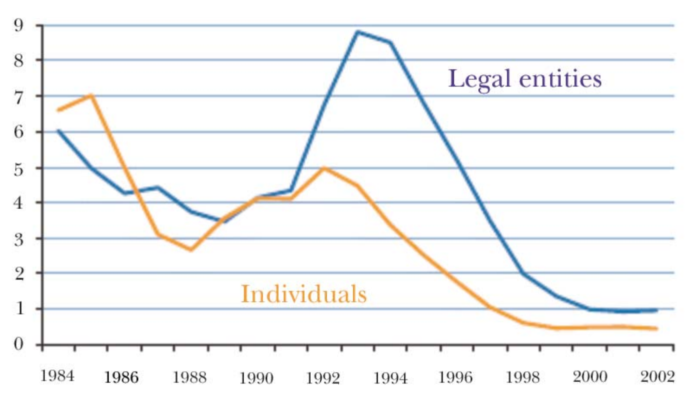
[19] In the specific case of Spain, an element further complicates the situation. In Spain, microcredits are granted to underprivileged individuals who lack collateral to start a small business. The problem arises once the microcredit is granted since in order to set up the business, these people need to rent a storefront, something which does require a personal guarantee.

[20] Authors' translation.

[21] Idem.

Graph 2.6 exemplifies the evolution of non-performing loan levels in Spain between 1984 and 2002, drawing a distinction between legal entities (including all types of companies, both incorporated and sole proprietorships) and individuals. The chart reveals that the non-performing loan ratio is low in Spain, though higher in the business sector than among individuals.

Graph 2.6.
Evolution of the non-performing loan ratio in Spain (in percentage points)



Source: Banco de España (Bank of Spain)(2003).

The Dictionary of the Royal Spanish Academy of Language links the term **default** with the adjectives "Frustrated, useless, without credit, irrecoverable, cannot be collected"[22]. In our context, a person has *defaulted* when he or she is unable to pay back the loan, and hence a defaulted loan is any loan or part thereof that is irrecoverable.

2.4.2.1. A few reflections on the above concepts

Microfinance institutions disagree over whether the terms default and arrears are interchangeable. For some institutions, to be in arrears means to have missed a microcredit instalment although there is a willingness to repay in the future. Hence, since the overdue debt could be the result of a temporal problem, offering a second chance may prevent default. However, for other microcredit institutions, arrears is a

[22] Idem.

synonym for default. In general, the socio-cultural context determines the boundaries between 'default' and 'arrears'. Communities in developing countries usually place an exemption on paying back capital if default occurs, although not where arrears are concerned.

In Spain, according to the institutions that participated in the Foro Nantik Lum de MicroFinanzas expert workshops, a microcredit becomes a defaulted loan after prolonged delinquency. These institutions, however, failed to agree on the number of late months or payments before default is declared.

- For some institutions, default occurs after twelve months of delinquency and the loan is written off.

- For others three payment deferrals imply default.

2.4.3. Grace period

The Dictionary of the Royal Spanish Academy defines **grace period** as "a period in which the new client can enjoy certain services offered"[23]. Although the microfinance client is not obliged to pay back the principal during the grace period, interest still accrues. In other words, while interest expense is incurred, no capital is amortized.

2.4.3.1. A few reflections and main debates

Ever since the Microcredit Line of the Instituto de Crédito Oficial (ICO)[24] was created in Spain in 2002, a heated debate has occurred among the various agents involved in microcredit disbursement: government institutions, financial institutions, Social Microcredit Support Organizations (SMSOs) and microcredit clients. Whereas the ICO does not grant a grace period, both the SMSOs and microcredit clients have argued that a grace period is necessary to allow the enterprise to get off of the ground and generate revenues. In response to this demand, in their own microcredit programmes, some financial institutions have set up grace periods ranging in length from three to six months.

[23] Idem.

[24] The ICO Microcredit Line launched by the government and the microcredit programmes of Spanish financial institutions will be analysed in-depth in Chapter 3.

In general, although the institutions that participated in the Foro Nantik Lum de MicroFinanzas expert workshops agreed that a grace period is necessary, no consensus was reached over the length of the period. Some claimed just a month, whereas others suggested up to a year.

Some institutions consider that the ideal grace period would last until the business turns a profit, including an extra margin of time so that the first revenues could be used towards improving the client's living conditions. When no grace period exists, clients often ask for a bigger loan in order to be able to make the first payments.

The institutions that believe no grace period should be provided claim that:

- From the very beginning, the client has to learn the discipline and accountability of loan repayment.
- The client must have the incentive to quickly generate revenues in order to improve his or her precarious financial situation.
- Step-up payments offer another option: the instalment amount is initially very small, and then slowly increases as months go by.

2.5. Evaluation and Impact assessment

2.5.1. Defining the microcredit's aim: Economic and social impact and its assessment

Before attempting to define the concepts of *evaluation* and *impact assessment*, it is crucial to reflect on the real aim of microcredit. As mentioned in the introduction, the core objective of microloans is to improve the living conditions of underprivileged people – to put an end to the vicious circle of poverty by enabling the poor to set up a small business that generates enough revenues to not only repay the loan, but to foster a rise in the standard of living. Thus, any evaluation will need to determine whether the microcredit contributes to poverty alleviation.

According to the definition of the OECD's Cooperation Directorate (OECD, 2006), **evaluation** is the "*systematic and objective assessment of an on-going or completed project, programme or policy, its design, implementation* *and results. The aim is to determine the relevance and fulfilment of objectives, development efficiency, effectiveness, impact and sustainability. An evaluation should provide information that is credible and useful, enabling the incorporation of lessons learned into the decision–making process of both recipients and donors*".

Nevertheless, most evaluations of development projects only consider efficiency and effectiveness. In the case of microcredit programmes, any proper evaluation should gauge both the economic impact (measuring, for example, the increase in family income, the number of daily meals, the quality of the food consumed by the family, the number of children in school, etc. or else determining whether upgrades have been made to the house, for example, roof repair or toilet installation, etc.) and the social impact (determining an individual's empowerment, his or her integration and participation in the community, etc.). Hence, an evaluation should not simply focus on analyzing whether the microcredit programme is:

- Efficient, that is, if expenses meet original targets, or
- Effective, that is, if expenses have been incurred in the targeted way, or
- Sustainable, that is, if clients have repaid loans.

A microcredit's ultimate aim is not achieving a zero non-performing loan ratio. The real aim is to help the poor escape from poverty, achieve higher standards of living, and become socially and financially included. Indeed, the success of a microcredit programme is not a hundred percent loan repayment rate but rather, a positive social impact on its clients.

Bearing in mind that microcredit was created to reach the poorest and most marginalized people, the assessment of client selection criteria and indicators is essential. The aim is not to disburse microcredits to a population segment that can easily pay back the loan, but rather, to have a positive economic and social impact on impoverished clients. Thus, client selection determines whether the loan is really a microcredit or rather, some other type of loan instrument.

In this regard, we must ask ourselves: How do we work with the most vulnerable population groups? What instruments are best for them? What type of training, assessment and follow-up services do they need?

2.5.2. Analysis of the concepts: Evaluation and Impact assessment

The **evaluation of a microcredit programme** as a development tool should first include the following criteria: effectiveness, efficiency, pertinence, sustainability, community involvement and programme impact. However, as we outlined above, the evaluation should primarily focus on programme impact on the client. The institution should determine the extent to which the microcredit contributes to poverty eradication, and whether or not it meets the goal of **economic and social impact**, defined as the *improvement of the client's socio-economic status.*

As a starting point, we can lay out the following general Project Design Matrix:

General Objective	Poverty reduction
Specific Objectives	Boost the standard of living of microcredit clients
R.1.	Improved economic welfare: purchasing power (revenues), loan repayment, business success, etc.
R.2.	Improved psycho-social welfare: participation and integration within society, self-esteem, confidence, etc.
A.1.	Training
A.2.	Lending of necessary funds / Set-up and support of business
A.3.	Follow-up / Assessment
A.4.	Repayment of funds

The Project Design Matrix is used to gauge the programme's economic and social impact. Although the rise in revenues is an expected outcome of any microcredit programme, it is not a sufficient indicator of the programme's impact on the standard of living of clients. Thus, social and psychological variables (access to health care, education, participation in the community, etc.) should be evaluated. The holistic analysis of these components determines whether the programme has actually managed to reduce clients' vulnerabilities.

Moreover, the evaluation should also assess the loan-granting process and institutional operations:

- Effectiveness (productivity, volume of activity, portfolio status, liquidity and dependence on outside financing).

- Management efficiency (capacity, performance, profitability).

- Sustainability (operating and financial self-sufficiency).

- Pertinence (relevance to clients' needs).

- Community participation (extent to which the institution involves the community and its members in the programme).

2.5.3. A few reflections

Clearly, programme evaluation is critical in detecting and correcting mistakes, establishing good working practices, and fostering organisational learning and growth. Due to the high cost of bad management, a well-developed evaluation maximises resources and optimises results. Although conducting a thorough evaluation may initially appear to be a sizeable expense, not only do the benefits justify the expenditure, but costs eventually decrease as the organisation progresses on the learning curve. Especially since client welfare is at stake, the systematisation of evaluations and publication of results is key.

In this section, we have summarised the main concerns discussed at the Foro Nantik Lum de MicroFinanzas expert workshops about programme evaluations. Despite the proliferation of microfinance institutions, very few organisations have carried out timely, statistically significant, and well-designed evaluations[25]. In general, microcredit programme evaluations in Spain predominantly use client interviews as an analytical tool and simply focus on:

- The generation of revenues as an indicator for microcredit repayment and business sustainability.

- Capacity for job creation or labour market integration.

[25] The Foro Nantik Lum de MicroFinanzas has carried out several impact assessments (see www.nantiklum.org/foro.htm). Some to be published soon.

CHAPTER 3.

EXERCISING THE RIGHT TO CREDIT: THE SPANISH WAY

Over the last two decades, we have witnessed a veritable explosion in the use of microfinance as a means of reducing social and financial exclusion and poverty levels. Certainly, Spain is no exception. Since the start of this decade, interest in microcredit has grown in our country's public and private organisations, media, and scientific community. Over the last five years, several financial institutions, along with the government and various NGOs, have penetrated into the field of microcredit with the aim of directly addressing the issue of poverty and social and financial exclusion, suffered by a sizeable portion of the Spanish population.

Data from Eurostat (2005) reveals that in 2001, 15% of the European Union's population was below the poverty threshold. In Spain, this figure is 19%. Elsewhere, Carbó Valverde and López del Paso (2005) cite that 10.1 % of the European Union's population is financially excluded, meaning that they do not have access to a bank account. Furthermore, data collected from the Eurobarometer and the Blue Book on Payment and Security Settlement Systems drafted by the Central European Bank demonstrates that the rate of financial exclusion in Spain is 9.4%.

The purpose of this chapter is to analyse how microcredits are currently disbursed in Spain and to illustrate the unique role played by savings banks in promoting the financial and social inclusion of the poor through microcredit. This requires us to first analyse the main features of microcredits in the Spanish context. Second, we will look at the main microcredit programmes in Spain and how they work. Third, we will examine the three agents involved in microfinance in Spain: financial institutions, SMSOs and clients. And finally, we will assess the impact of microcredits in Spain on the most underprivileged groups, and offer some final reflections about how the Spanish microcredit disbursement model could be improved.

3.1. Microcredit features in Spain

In Spain, a microcredit is defined as an *individual loan* granted to groups at risk of social and financial exclusion. Microloans are made on the basis of the *trustworthiness of the applicant* and the *feasibility of the projects* to be financed. Vulnerable groups are offered a financial alternative to set up economic initiatives or small businesses – microenterprises – which allow them to generate a regular source of income through self-employment, thus becoming a tool for integration and the enhancement of living conditions. Table 3.1. summarises the main features of Spanish microcredit programmes.

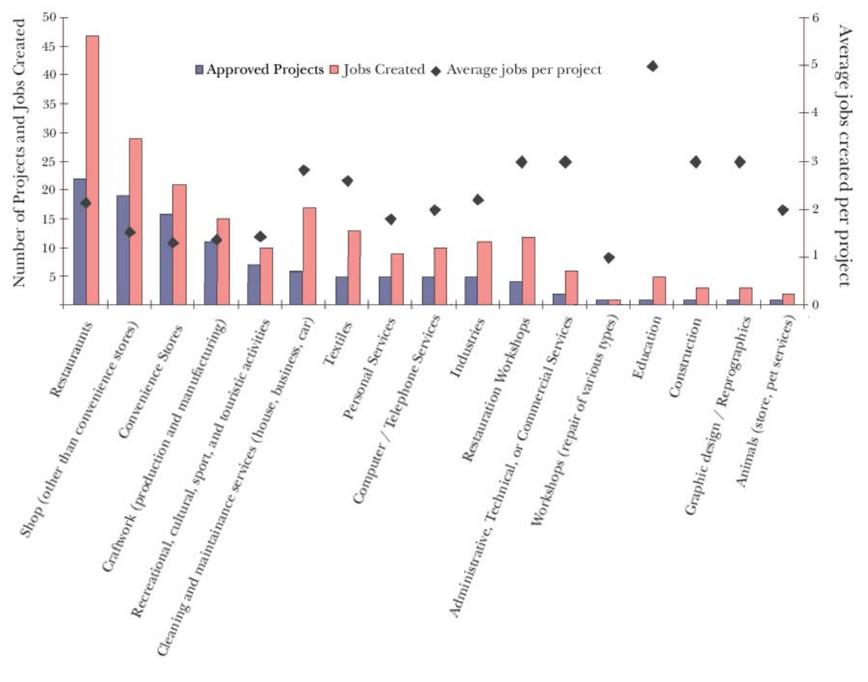
Table 3.1.
Main features of microcredit programmes in Spain

Loan size	From 6,000 to 25,000 euros[1].
Grace period	From 0 to 6 months[2].
Repayment term	From 2.2 to 6 years.
Current rate of interest	Between 3.25% and 6%.
Guarantees	No guarantees (in most cases)[3].
Fees	No fees (in most cases).
Main features	Individual loans which are granted to set up small businesses or microenterprises that generate self-employment and jobs.
Main requirements of the target segment	a) To form part of a disadvantaged social group with particular difficulties in finding employment. b) No access to a formal financial system due to lack of collateral. c) To possess entrepreneurial skills and a feasible business initiative.

Source: Rico, Lacalle, Durán and Ballesteros (2004) and Survey (2006).
(1) The BBK microcredit programme offers up to 50,000 euros.
(2) The BBK microcredit programme offers up to 24 months.
(3) Some institutions require guarantees based on personal savings or group guarantees.
(4) Some institutions charge up-front or delinquency fees.

Microenterprise initiatives financed in Spain via microcredit cover a wide variety of sectors: bars and small restaurants, food stores, construction services, beauty and health centres, to name a few. An illustration of this diversity is reflected in the breakdown of CajaGranada's microcredit programme activities, shown in Graph 3.1. The graph also illustrates that each microcredit loan generates an average of two jobs.

Graph 3.1.
Microcredit programme activities
Example: CajaGranada



Source Authors; CajaGranada.

3.2. Main microcredit programmes in Spain

During the 1990s, certain NGOs (such as Women's World Banking in Spain) began granting microloans in Spain. These organisations financed their programmes by setting up specific agreements with the Public Administration or financial institutions in order to grant loans or guarantee funds.

Major growth in the use of microloans began at the start of the present decade. In 2001, through its Fundació Un Sol Món, Caixa Catalunya became the first savings bank to disburse microcredits. Other savings banks have since followed suit with their own programmes and/or programmes affiliated with the Public Administration. We can therefore identify two types of microcredit programmes in Spain (see Table 3.2):

Table 3.2.
The main microcredit programmes in Spain

I. Financial institutions' proprietary programmes	Savings banks launched their own programmes at the beginning of this decade as part of their social function to prevent financial exclusion and promote economic development and social progress.	
II. Financial institutions' programmes affiliated with the Public Administration on a national scale	*i). The Microcredit Line of the Instituto Crédito Oficial (ICO)*	The ICO Microcredit Line was set up in 2002 under the motto "your word is your bond". The European Investment Fund collaborates with the ICO to improve financing conditions by partially covering the risk.
	ii). Microcredit Programme for Entrepreneurial and Business Women	This programme, aimed exclusively at women, has been implemented by the Spanish Women's Institute since 2001. This organisation answers to the Ministry of Labour and Social Affairs, in collaboration with of the Directorate of Small and Medium Sized Enterprises and the National Organisation for Innovation, which in turn answer to the Ministry of Industry, Tourism and Trade. "la Caixa" participates as the financial institution. This programme is co-financed by the European Social Fund.

Source: Rico, Lacalle, Durán and Ballesteros (2004).

I. **Programmes set up by the savings banks**, which are generally financed through their Social Work funds. (This aspect will be described in-depth in section 3.4.1).

II. **Spanish Public Administration Programmes**, in which savings banks and commercial banks participate, but with the latter playing an increasingly reduced role. These programmes include:

   i) The ICO Microcredit Line. Created by the end of 2002 and operative since then, it has "your word is your bond" as its motto. The programme ***objectives*** include:

   - Promoting self-employment, creating micro-businesses and reducing unemployment.
   - Easing access to financing.
   - Supporting the 'financially excluded' so that their business ideas can be made into a reality.

The ***agents*** involved in the ICO Microcredit Line and their functions are as follows:

- The **European Investment Fund** (EIF). Works alongside the ICO to improve financing conditions by covering 80% (during 2003) and 50% (in subsequent years) of risk in case of default.

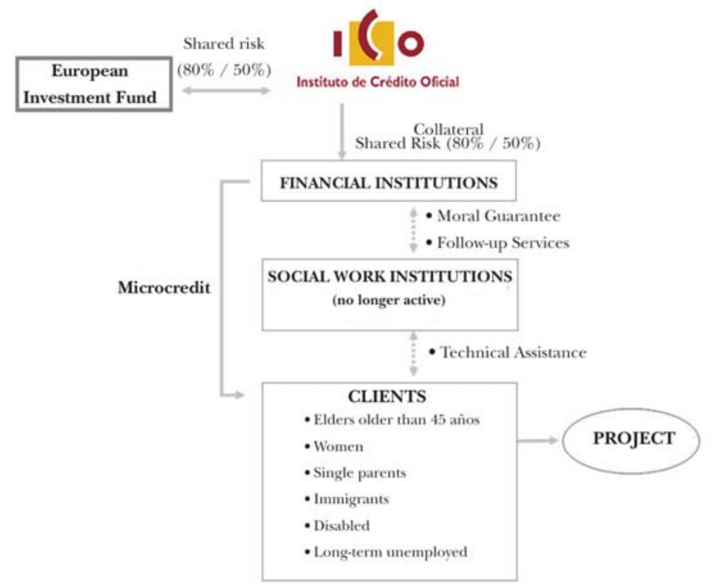
- **Private financial institutions**. Channel and manage microloans. In 2003, 39 financial institutions, both commercial banks and savings banks, were active. From 2004 onwards, only savings banks have offered microloans.

- **Social work institutions** *(Instituciones de Asistencia Social)*. Consists of institutions, associations, foundations and public or private organisations geared towards bolstering the creation of micro-businesses, fomenting self-employment and providing incentives for entrepreneurial activities. In 2003, 67 institutions took part, although their numbers were drastically reduced to five in 2004 and none by the start of 2005. These institutions are what we call SMSOs, whose functions and characteristics will be examined later on in this chapter.

• **The ICO Foundation:** Provides funds for technical assistance.

The following figure summarizes the model of the ICO Microcredit Line.

Figure 3.1.
Model of the ICO Microcredit Line



Source: Authors; ICO (2005).

ii) The Microcredit Programme for Entrepreneurial and Business Women of the Women's Institute. Launched in 2001 by the government and exclusively geared towards women, this other major microcredit programme is jointly promoted by the Women´s Institute, the Directorate of Small and Medium Enterprises of the Ministry of Industry, Tourism and Trade, and "la Caixa". The following women's business organisations participate in the programme: the Federación Española de Mujeres Empresarias, de Negocios y Profesionales (FEMENP), the Fundación Internacional de la Mujer Emprendedora (FIDEM), the Organización de Mujeres Empresarias y Gerencia Activa (OMEGA), the Unión de Asociaciones de Trabajadoras Autónomas y Emprendedoras (UATAE) and the Women's World Banking in Spain.

This programme is aimed chiefly at women who meet the following selection criteria.

- The recipient must be a female entrepreneur or businesswoman who is starting up a business or has started it within the previous year.

- The recipient must present a business plan designed according to an established format, as well as obtain a validation certificate issued by one of the women's business organizations involved in the programme.

- More than 50% of the company must be owned by women.

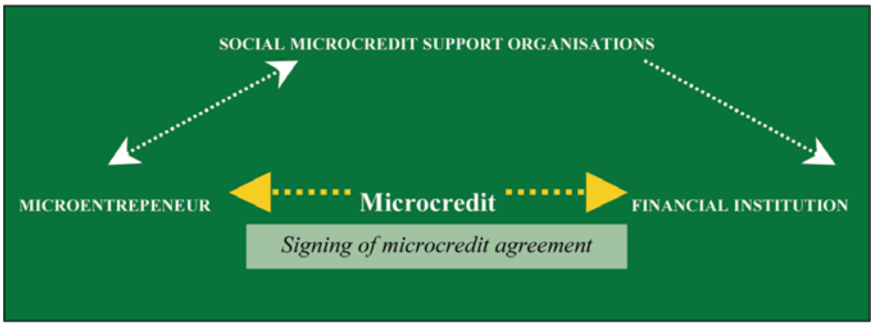
  The significance of this programme is that it represents a positive plan of action to counter the long-standing disadvantage women face in the job market.

3.3. The Spanish microcredit model

The ***functioning of these programmes*** is based on the existence of SMSOs, which serve as a liaison point between the lenders who supply the microcredit (in Spain, lenders are limited to official financial institutions: commercial banks, savings banks and credit cooperatives) and the microentrepreneur. SMSOs, which may be private or public institutions, are recognized for their close contact with vulnerable groups and their experience in social/labour integration through promoting self-employment.

As Figure 3.2. demonstrates, microloans are usually granted in Spain in the following way: i) The microentrepreneur contacts an SMSO for information; ii) the SMSOs identifies the potential beneficiaries, provides them with the necessary help to complete a microcredit application, and forwards their application to the financial institution; iii) the financial institution then makes a credit rating based on the project's feasibility, and if the assessment is positive, formalises the microcredit agreement. This agreement is signed directly by the financial institution and the microentrepreneur. iv) In addition to the above, the SMSOs are also responsible for follow-up work, providing the necessary support to microentrepreneurs throughout the duration of the loan.

Figure 3.2.
How microcredits are granted in Spain



Source: Authors.

We shall now conduct a more in-depth analysis of each of these three actors involved in the implementation of microcredit programmes: financial institutions, clients and SMSOs.

3.4. Actors implementing microcredit programmes

3.4.1. Financial institutions: savings banks and commercial banks

A) Financial Institutions´ proprietary programmes

According to data provided by the Spanish Confederation of Savings Banks (CECA, 2005), nearly all 46 savings banks disburse microcredits. Seven of them, however, are the most active savings banks in this field and have carried out a greater number of operations through their proprietary programmes, as evidenced in Table 3.3. More specifically, since the beginning of the decade, these banks have carried out 3,921 operations worth 41.8 million euros.

Table 3.3.
Microcredits granted in Spain by the seven main Saving Banks
(From the start of their microcredit lines until December 2005)

Saving Bank	Financing granted (Mill.)	Nº operations
A	20.90	1,472
B	7.33	786
C	5.69	704
D	2.69	534
E	2.09	220
F	1.85	205
G	1.23	307
Total	41.8	3,921

Source: Survey (2006)[26] .

The ***financial terms and conditions*** of Savings Banks microcredit programmes are illustrated in the previous Table 3.1.

Originated in the 19th century, Spanish savings banks are non-profit entities that combine a social mission with financial activity as a means to promote social and financial inclusion, as well as economic development and social progress. Currently, the ***financing sources*** for microcredit come from the mandatory reinvestment of post-tax profits in Social Work. Hence, Spanish savings banks (with few exceptions) offer microcredit based on an off-balance sheet model[27]. In some cases, the funds come from public subsidies. For example, the microcredit programme of CajaGranada is partly financed by the European Union Equal programme[28]. Since microloans are subsidised, two potentially negative outcomes may occur[29]:

1. The lack of financial risk for savings banks in their microcredit operations may mean that follow-up on the loans is more lax. As a result, clients may interpret relaxed vigilance standards as less responsibility for loan repayment. Consequently, a significant rise

[26] This data comes from the survey undertaken in collaboration with the EMN during the first six months of 2006, and it is the most recent data on the sector. For reasons of confidentiality, we cannot reveal the identity of the different savings banks, and so we will refer to them as Savings Banks A, B, C, D, E, F and G. They include the following institutions: BBK, CAI, Caixa Catalunya (Un Sol Món), Caixa Galicia, CajaGranada, Kutxa and "la Caixa".

[27] This means that profit and losses resulting from the microcredit operations are not consolidated in the bank's financial statements.

[28] EQUAL is a EU labor initiative promoted by the European Social Fund. Its aim is cross-national cooperation to promote new ways of fighting against discrimination and inequality in the labour market.

[29] These outcomes have not been verified due to the short lifespan of microcredits in Spain.

in arrears and default levels may occur, with the end result being a weakening in programme sustainability and the jeopardising of the borrowers themselves.

2. Savings banks will fail to promote truly social and ethical banking. However, some socially responsible savings products have already been launched, such as the BBK's solidarity deposit and CajaGranada's solidarity bank card. The BBK's solidarity deposit devotes a percentage of the profits to finance 1) microcredit programmes for small business start-ups, 2) loans for family needs (housing rental, debt cancellation in an immigrant's country of origin, etc.), or 3) funding of social organisations . As for CajaGranada's *Tarjeta Solidaria* (Solidarity Bank Card), 0.7% of fees are devoted to the microcredit programme.

Recently, the Spanish savings banks have launched the Spanish Microfinance Network, similar to the EMN, to further promote microcredit in Spain.

B) Financial institutions' programmes affiliated with the Public Administration

B. I. Financial institutions' affiliated with the ICO Microcredit Line

In 2003, Spanish **commercial banks** played an important role in microcredit activity through the ICO Microcredit Line. During that year, three of the main banks (BBVA, Grupo Santander and Banco Popular) granted 60% of the 15.1 million euros channelled through this public initiative (805 microloans). However, the banks have recently abandoned microcredit activity as a consequence of the increased percentage of risk required by the ICO Microcredit Line. This percentage – originally 20% with the remaining 80% covered by the ICO and the FEI – increased to 50% in 2005. Unlike the savings banks which can resort to Social Work funds to cover the risk of non-payment in microcredit operations, commercial banks have much tighter budgets for Corporate Social Responsibility activities, thus limiting their ability to cover losses. As a result, according to ICO (2005) and CECA (2005) data, the volume of microloans disbursed through the ICO Line declined to 4.7 million euros in 2004 and 0.5 million euros in 2005. [30]

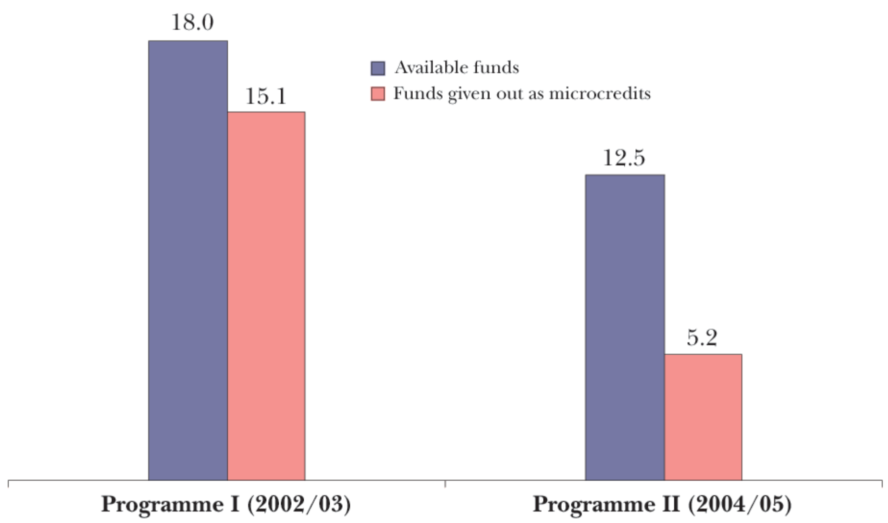
[30] Among the potential reasons that lie behind this decline:

i) The small loan size entails a high unit transaction cost for financial institutions, thus causing a negative impact on profitability.

ii) Financial institutions lack experience in this type of operation. The ICO Microcredit Line does not provide additional funds for loan follow-up.

iii) The strict conditions of the microcredit loan – without grace period or flexible repayment terms – could have a negative impact on arrears and defaults, which Martínez Estevez (2005) estimates at 35%.

Graph 3.2.
Microloans granted through the ICO Microcredit Line (until October 2005)
(in millions)



Source: CECA (2005); ICO (2005).

The ***financial terms and conditions*** of the ICO's Microcredit Line are as follows (Table 3.4.):

Table 3.4.
Terms and Conditions of the ICO Microcredit Line

Maximum amount	25,000 euros
Grace period	None
Maximum repayment period	2 or 3 years (2003) 3 or 4 years (2004) 5 years (2005)
Current interest rate	6% (2003) 5.5% (2004) 5.5 (2005)
Guaranties	No guarantees
Fees	No fees
Maximum financing	95% of Project

Source: Authors; ICO (2004); ICO (2005).

The average loan amount granted by financial institutions via the ICO Microcredit Line is 19,093.67 euros.

B. II. Financial institutions affiliated with the Microcredit Programme for Entrepreneurial and Business Women

This programme is co-financed by the European Social Fund, and its line of credit is infused annually with 6 million euros by "la Caixa". The programme's chief objective is to support enterprising businesswomen in their commercial projects, providing them with access to funding under favourable conditions with no need for guarantees.

The ***financial terms and conditions*** offered by "la Caixa" through this programme are as follows (Table 3.5.):

Table 3.5.
Terms and Conditions of the Microcredit Programme for Entrepreneurial and Business Women, 2004

Maximum amount	15,000 euros
Grace period	6 months (optional)
Maximum repayment period	5 years
Current interest rate	5% fixed rate over duration of loan
Guarantee	Not required
Fees	0.50% up-front fee; 0.25% for feasibility study; 0% early amortisation
Maximum financing level	95% of project

Source: Authors; Ministerio de Trabajo y Asuntos Sociales (2004).

The amount of microloans granted through this programme is included in the overall figures for microloans issued by "la Caixa" (Table 3.3.).

3.4.2 Social Microcredit Support Organisations (SMSOs)

As we mentioned before, the main purpose of the SMSOs is to serve as a link between the end client and the financial institutions by offering a moral guarantee and technical support for the financed projects and monitoring the progress of the approved business plan. In 2001, the Fundació Un Sol Món of Caixa Catalunya pioneered this model for granting microloans. Since then, this model has been increasingly used by other financial institutions and by the Public Administration. Although the ICO Microcredit Line originally used a similar model with support from social work institutions *(Instituciones de Asistencia Social),* the system has been abandoned. In the Microcredit Programme for Entrepreneurial and Business Women, five women's business organisations collaborate as SMSOs[31]. (See appendix 1 for specific cases of SMSOs).

The advantages of this model is evident given its widespread use. For example, "la Caixa" or Caixa Catalunya's Fundació Un Sol Món use a network of more than 50 SMSOs.

Table 3.6. details the main features of these institutions:

[31] The Federación Española de Mujeres Empresarias, de Negocios y Profesionales (FEMENP), the Fundación Internacional de la Mujer Emprendedora (FIDEM), the Organización de Mujeres Empresarias y Gerencia Activa (OMEGA), the Unión de Asociaciones de Trabajadoras Autónomas y Emprendedoras (UATAE) and the Women's World Banking in Spain.

Table 3.6.
Main Features of the SMSOs

Types	• Public: organisations run by regional or local councils (employment agencies, local development agencies, employment enterprise centres, etc.). • Private (generally non-profit organisations): chambers of commerce, unions, NGOs, administrative agencies and consultants, among others.
Requirements	• **Experience in social integration:** Organisations whose main activity is to foster employment and self-employment amongst the social strata with the greatest difficulty in gaining a stable job. • **Thorough knowledge and work experience with vulnerable groups**, such as the unemployed, immigrants, ethnic minorities, vulnerable women or the disabled. • With **social and institutional influence** in the targeted geographical or social area in coordination with other organisations and the local Public Administration. • **Training and business management skills** in order to follow up on and mentor entrepreneurs. Managers of SMSOs must be capable of advising microcredit clients on accounting, commercial and administrative issues, etc. • **Transparency and good communication** with the financial institutions. Given the joint responsibility that exists between the financial institution and SMSOs, enormous importance is attributed to communication, mutual understanding and the appropriate allocation of tasks. Financial institutions provide the money and assume the credit risk, whereas SMSOs are responsible for selecting the beneficiaries and remaining close to them during the business launch and throughout the term of the microloan.

Source: Rico, Lacalle, Ballesteros and Durán (2005).

The importance of SMSOs in microcredit activity in Spain is ascribed to the functions they fulfil as intermediaries, jointly responsible to financial institutions and microentrepreneurs alike. The following figure reveals these specific functions:

Table 3.7.
Functions of the SMSOs

For the microentrepreneur	• Identification of potential beneficiaries. • Assistance, information and advice for the microentrepreneur and his/her business idea. • Training of the microentrepreneur in the preparation of his/her business plan and other business matters, including marketing, taxes and legal counsel. • Revision of the business plan and of the necessary additional documentation. • Presentation of the documentation required by the financial institution for the microcredit. Provision of moral endorsement or guarantee of the beneficiary and his/her business plan to the financial institution. • Training and technical assistance throughout the term of the microcredit. • Control and monitoring of the microenterprise for at least one or two years in order to guarantee its feasibility and the repayment of the credit.

For the financial institution	• Selection of the microentrepreneurs on the basis of:
	  ▫ Exclusion from any other type of ordinary credit.
	  ▫ Potential for business success due to an enterprising spirit.
	• Evaluation and selection of the projects in terms of economic sustainability.
	• Monitoring and control of the business in order to ensure credit repayment.

Source: Rico, Lacalle, Ballesteros and Durán (2005).

Some SMSOs provide potential microcredit clients with training and preparatory courses in business management, negotiation, and/or banking processes. In some cases, attendance at these courses constitutes a prior requisite to applying for a microcredit. This training period guarantees better technical preparation for the client. Likewise, it works as a natural selection process in identifying clients who demonstrate entrepreneurial spirit and skills.

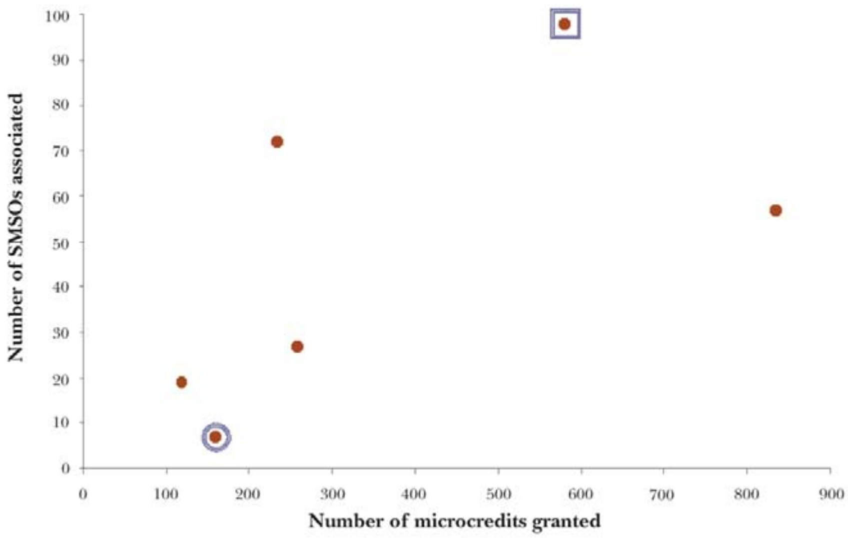
SMSOs are responsible for assessing the suitability of the client as a future entrepreneur, especially since microenterprise failure may exacerbate social and financial exclusion. However, if a client abandons a successful small business in order to accept a job as an employee in a larger company, this is not considered a failure of the microcredit. On the contrary, SMSOs and microcredit entities consider that the microcredit has fulfilled its objective of social, labour and financial integration.

3.4.2.1. Analysis of the work carried out by SMSOs: Assessment of the efficacy and efficiency of SMSOs

Apart from playing the role as a link and mentor between financial institutions and clients, SMSOs promote the distribution of microcredits all over Spain. SMSOs enable financial institutions to gain access to collectives that they have not traditionally dealt with, especially since many of these population segments reside in remote or marginalised areas with little financial profitability potential. Likewise, SMSOs compensate for the lack of social work experience among the financial institution employees who process the micrloand. SMSOs therefore offer financial institutions a means of extending microcredit coverage.

In order to determine whether SMSOs are efficient in their role as microcredit intermediaries, a positive correlation may be expected between the number of SMSOs associated with a microcredit programme and the number of microloans granted. However, according to the analysis conducted by the Foro Nantik Lum de MicroFinanzas, no such correlation exists (Graph 3.3.). As shown below, a clear lack of correlation exists between the volume of microcredits disbursed per programme and the number of SMSOs associated per programme:

Graph 3.3.
Comparison among microcredit programmes:
Lack of correlation between the number of microloans disbursed per programme and the number of SMSOs associated with each programme, 2004 (Blind study)

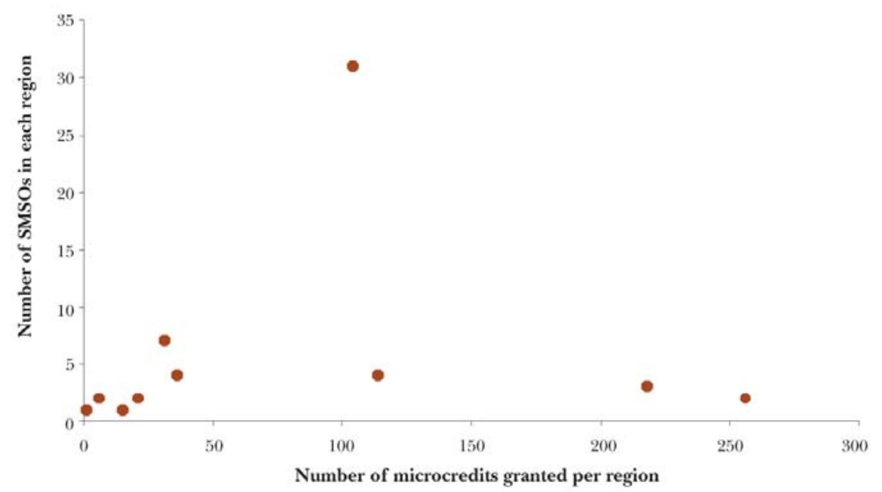


Source: Authors, Survey (2005); ICO (2004).
Note: Includes data from the programmes of Banco Popular, CajaGranada, Fundació Un Sol Món, ICO Microcredit Line 2004, "la Caixa" and Caixa Galicia.

As can be observed in graph 3.3., the programme marked with a circle has granted 160 microloans and uses seven SMSOs (almost 23 microcredits per SMSO). Nonetheless, another programme (the one marked with a square) has granted 580 microloans using 98 SMSOs (6 loans per SMSO).

If, on the other hand, this efficiency analysis focuses on whether any positive relationship exists between the number of microloans granted per region and the number of SMSOs in each region, the lack of correlation is once again evident. The result of this analysis is displayed in graph 3.4.:

Graph 3.4
Analysis of a microcredit programme:
Lack of correlation between the number of microloans disbursed per region and the number of SMSOs in each region, 2004
(Blind study)



Source: Authors; Data provided by a financial institution.

According to the analysis, SMSOs differ in efficiency. Thus, due to the dispersion in SMSO efficiency, financial institutions should consider incorporating the criteria of efficiency in selecting their associated SMSOs in order to achieve a positive relationship between the microloans granted and the number of SMSOs used.

In order to evaluate the cost/profit efficiency[32] of SMSOs, it is necessary to quantify the costs associated with intermediary work. Selection and coordinating tasks with SMSOs involve a series of costs for financial institutions: travel, communications, administration, staff, etc. However, the costs incurred by the SMSOs themselves in order to carry out their training, follow-up and mentoring functions are greater still[33].

[32] Given the scarcity of accounting information available on financial institutions and SMSOs, no cost/profit efficiency analysis of SMSOs has been carried out. Nevertheless, the relevance of this issue requires research in the future.

[33] Paradoxically, in the current Spanish microcredit model, the operation costs associated with the functions of SMSOs, such as staff, travel, management and administration costs, are almost entirely covered by SMSOs themselves and not by financial institutions or the Public Administration. As a result, financial institutions implicitly face reduced costs in their microcredit programmes.

In any case, the disparities mentioned above do not imply failure of the Spanish microcredit model since success is not measured strictly by financial metrics, but rather by social impact.

In conclusion, according to the agents who supply microloans in Spain (financial institutions and SMSOs)[34], the increasing predominance of SMSOs in the microcredit granting model is highly valued. Nevertheless, as a means to perfect the model, these agents propose various recommendations:

i) In some cases, financial institutions have opted for complementing this model with more direct client interaction. For example, in the case of CajaGranada, a strong commitment and social interest on the part of senior and junior staff has enabled a direct relationship between the financial institution and the potential clients, thus reducing the dependency on SMSOs as intermediaries.

ii) There is a need for greater commitment on the part of the Public Administration, both on a local and regional level. On a municipal level, local councils can act as facilitators of microcredit in a similar way to SMSOs. There are also examples of national or regional administrations that support the maintenance and growth of SMSOs[35]. Greater and increased support by the Public Administration would thus respond to the demands of the microcredit sector in Spain.

3.4.3. Clients

The groups identified by the main microcredit schemes in Spain are those who have difficulties in accessing traditional financing methods due to their socioeconomic and employment status. The microcredit schemes allow these groups to exercise their right to credit in order to transform their business ideas into reality. The main microcredit beneficiary groups in Spain are:

[34] Both in surveys and in the expert workshops (see introduction).

[35] Two programmes are noteworthy in this respect:
a) The Microcredits Programme for Entrepreneurial and Business Women.
b) The agreement between the Junta de Andalucía (Regional Government of Andalusia), the Fundación GENUS (a private institution with experience in working with abused women) and "la Caixa". In this case, the regional government redirects microcredit operations to the Fundación GENUS and contributes simultaneously to GENUS's maintenance and growth. In turn, the Fundación GENUS presents microcredit proposals to "la Caixa" for funding.

- Vulnerable women
- Immigrants
- Long-term unemployed
- Single-parent familes
- Persons over 45 years old of age
- Persons with disabilities
- Ethnic minorities

Among the most vulnerable groups in Spain are the 1.04 million unemployed women, 3.55 millions immigrants of working age and 1.34 million working age persons with disabilities. Table 3.8. provides an estimate of the potential microcredit clients in Spain.

Table 3.8.
Estimate of potential microcredit clients in Spain

Women	1.04 million unemployed women[1] (Rate of female unemployment of 11.5%)
Immigrants	3.55 millions persons of a working age[1]
Unemployed	1.83 millions persons[1] (29% are long-term unemployed, i.e. seeking employment for over a year) (25% are under 25 years old) (57% are women)
Single-parent homes	381,800 homes[2] (85% headed by a woman)
People with disabilities	1.34 million persons with disabilities of a working age[3]

Data drawn from:
(1) 2nd quarter of 2006 of Survey of the Active Population, (INE, 2006).
(2) Instituto de la Mujer (Women's Institute) (2006).
(3) Survey on Persons with Disabilities, Deficiencies and State of Health, 1999, (INE, 2005).

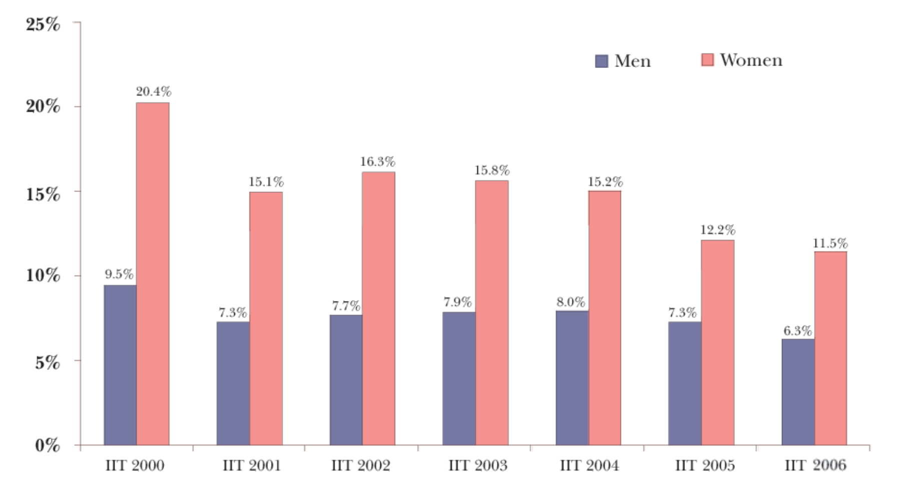
Next, we will analyse the vulnerability of the three main beneficiary collectives: women, immigrants and the disabled.

a) Women

As highlighted by the Fundación FOESSA and Cáritas (1999), difficulties in accessing the labour market and the increase of single-parent households headed by women explain the increased vulnerability of women to social exclusion.

At the beginning of this decade, the mass incorporation of women into a volatile labour market led to high levels of female unemployment relative to that of men, reaching 20.4% in 2000 as compared to 9.5% for men. Whereas the female unemployment rate has dropped over recent years (11.5% in the second quarter of 2006), it remains notably higher than male unemployment (6.3% for the same period). These results show persistent employment discrimination by gender.

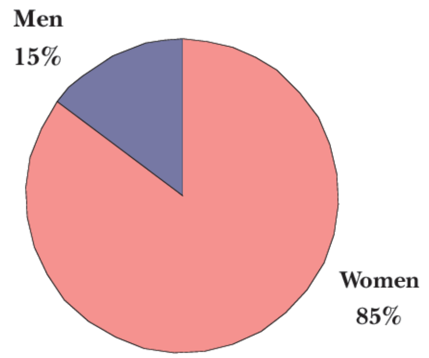
Graph 3.5.
Unemployment in Spain by gender, 2000 - 2006



Source: Authors; INE (2006).

Due to the rising number of divorces and single parent households headed by women, the vulnerability of women has increased as they assume responsibility for both household care and income generation. Although the number of single-parent households in Spain remains low at 2.4% of all total households, 85% of the total single-parent households are headed by women (Instituto de la Mujer, 2006).

Graph 3.6.
Breakdown of single-parent households by gender 2006



TOTAL: 381.800 households headed by one adult

Source: Authors; Instituto de la Mujer (Women's Institute) (2006).

These factors (high female unemployment and a high percentage of households headed by women) justify the estimates of the Women's Institute (Instituto de la Mujer, 2006) which, on the basis of data supplied by the European Union Household Panel (EUHP), states that 23% of women were at risk of social exclusion in Spain in 2001.

b) Immigrants[36]

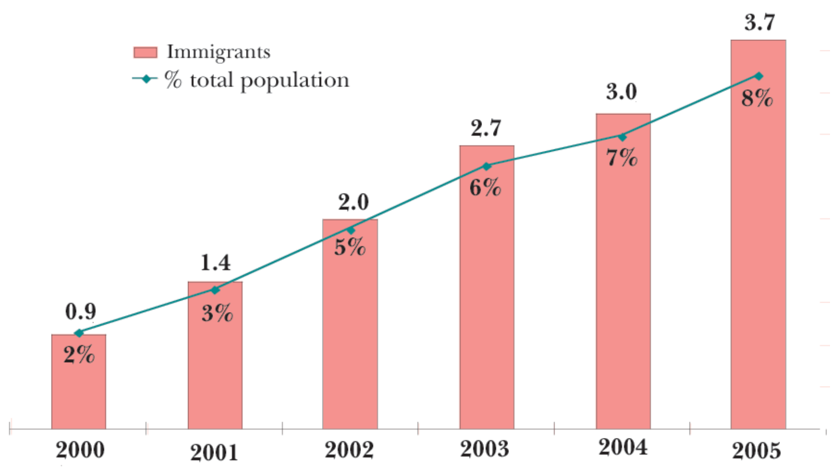
According to a study by the National Statistics Institute (INE, 2006b), the number of immigrants registered in the Municipal Registrar on January 1, 2005 was 3,730,610, representing 8.5% of the total population and almost six times higher than the number of immigrants registered in 1998.

Several reasons explain immigrants' exclusion, amongst which the following are noteworthy: i) the lack of resources on arrival in the country; ii) lack of knowledge of the language; iii) difficulty in obtaining a formal job, due to absence of necessary documentation and/or

[36] In this section we will briefly review key data on the granting of microcredits to immigrants. In chapter 4, an in-depth analysis is made of the scope of microcredit activity targeted at the immigrant population and the reasons why microcredits are a useful tool for the socio-labour and financial integration of immigrants in developed countries, such as Spain.

lack of professional experience; iv) the need to send wages home in order to attend to relatives; and/or v) the rigidity of the legal framework and problems in accessing social protection services. As observed in graph 3.7., the immigrant population at risk is becoming increasingly acute due to accelerated population growth.

Graph 3.7.
Immigrant population in Spain 2000-2005

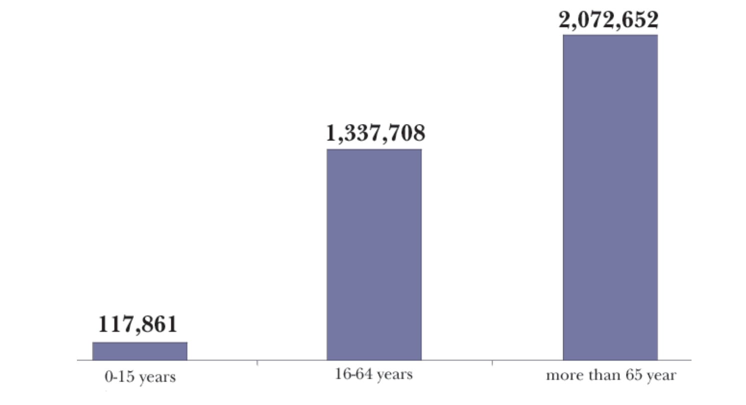


Source: INE (2006b).

c) The disabled

According to the Survey on Disabilities, Deficiencies and State of Health 1999 (INE, 2005), more than 3.5 million people with some degree of disability live in Spain, representing approximately 9% of the total population. The number of disabled people is continuously increasing due to the ageing population and higher survival rates from previously fatal diseases and accidents. The prevalence of disability increases linearly with age to the extent that almost two-thirds of the affected population consists of people over the age of 65. The number of disabled people of working age (between 16 and 64 years old) is in excess of 1.3 million people, approximately 38% of the total disabled population.

Graph 3.8.
Breakdown of disabled people by age, 1999



Source: Authors; INE (2005).

The greater vulnerability of this population segment to social and financial exclusion are attributed to deficiencies in: i) accessibility due to architectural barriers; ii) social benefits; iii) fiscal incentives; iv) protection of families with disabled relatives; v) job offers and permanent training adapted to the needs of disabled people.

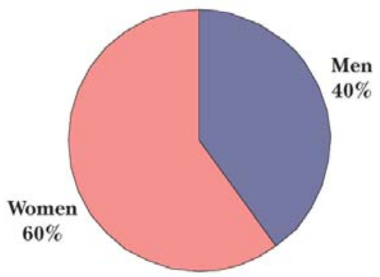
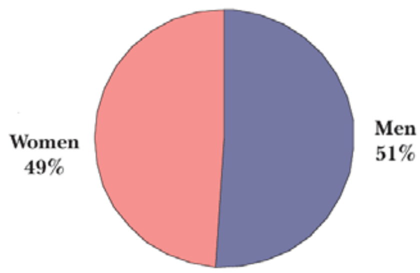
Although it is mandatory in Spain for companies of 50 workers or more to have a 2% reserve quota for disabled workers, employment remains a challenge for this group. In fact, according to the IMSERSO (2005), the unemployment rate amongst the disabled reached 66% in 2003.

Likewise, the Report of the Economic and Social Council (Consejo Económico Social, 2003) highlighted the link between low income and disability. According to the report, a significant proportion of households with disabled members (16%) did not bring in more than 391 euros per month, and only 37% reached an upper limit of 781 euros. There are two possible explanations for this situation. On one hand, since the elderly are more likely to be disabled and to have retired, lower incomes are undeniable. On the other hand, people living in low income households have decreased access to health care and sanitation services, and therefore, are more likely to develop impairments and disabilities. In many cases, the scarcity of resources makes access to formal banking credit impossible due to the lack of collateral.

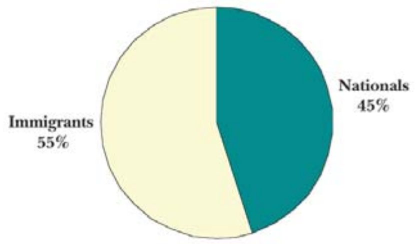
3.5. Scope of the Model

Although the spectrum of potential microcredit clients is wide, in light of the phenomena of the feminisation of poverty in Spain, **women** are one of the main targets of microcredit programmes. Based on data supplied by Lacalle, Rico, Márquez and Durán (2006) and ICO (2005), women receive between 50-60% of all microloans, while **immigrants** also obtain a significant percentage in the range of 38% - 55%.

A breakdown of clients in microcredit programmes devised by the Savings Banks and the ICO Microcredit Line is shown below.

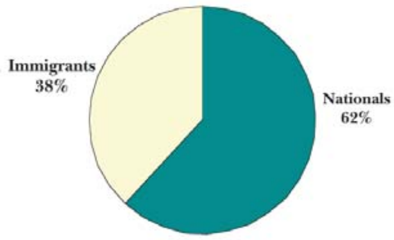
Graph 3.9. **Microloans granted to women by Savings Banks' proprietary programmes (2005)**	Graph 3.10. **Microloans granted to women by the ICO Microcredit Line (2002-2004)**
	
Source: Survey (2006). *Includes data from BBK, Caixa Catalunya, Caixa Galicia, Caja Granada, Colonya Caixa Pollença and "la Caixa".*	*Source: ICO (2005).*

Graph 3.11.
Microloans granted to immigrants by Saving Banks' proprietary programmes (2005)



Source: Survey (2006)
Includes data from BBK, Caixa Catalunya, Caixa Galicia, Caja Granada, Colonya Caixa Pollença and "la Caixa".

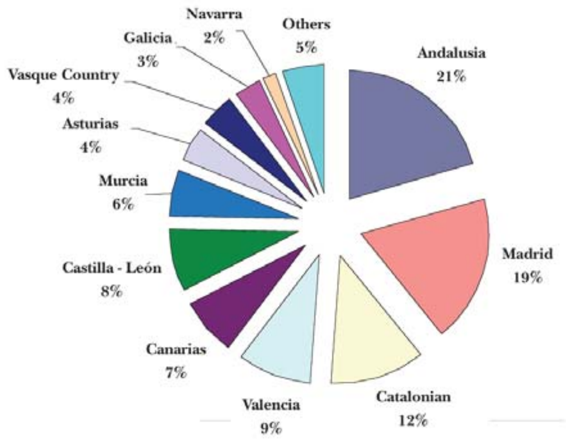
Graph 3.12.
Microloans granted to immigrants by the ICO Microcredit Line (2002-2004)



Source: ICO (2005).

As for the geographical location of clients, according to data from the ICO Microcredit Line, approximately 50% of microloans in Spain are granted in the regions of Madrid, Catalonia and Andalusia (Graph 3.15.)

Graph 3.13.
No. of operations of the ICO Microcredit Line by region, 2002-2004



Source: ICO (2005).

3.6. Analysis of the depth of outreach of microcredits amongst the most disadvantaged

As mentioned in chapter 2, in line with the definition adopted in the Microcredit Summit in Washington D.C., on 2-4 February 1997, microcredit refers to "small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families".

On the basis of this definition, it is important to asses whether the work of SMSOs and Spanish financial institutions has benefited the population segments at greatest risk of social and financial exclusion. With this objective, the Foro Nantik Lum de MicroFinanzas, through its field work[37], has carried out a preliminary analysis of the client and project selection criteria used by SMSOs and financial institutions.

According to the Survey (2005), practically all SMSOs agreed that since microloans are not subsidies, demonstration of project feasibility and client entrepreneurial character is required. Nevertheless, according to SMSOs, these two selection criteria should not exclude social indicators, such as unstable family conditions, the suffering of a disease or lack of education.

Yet in practice, SMSOs pay less heed to social criteria in comparison to economic feasibility criteria, mainly due to the large responsibility involved in supporting a client and his or her project. A wrong decision could have a seriously adverse effect. If, for example, an unfeasible project were approved, bankruptcy would not only lead to default, but the client would be further excluded from the financial system, including access to credit lines targeted at disadvantaged groups.

In sections 3.6.1 and 3.6.2, this phenomenon is illustrated by the results obtained in the Survey (2005).

3.6.1. Client selection criteria

Microcredits in Spain enable groups at risk of social and financial exclusion to exercise the right to credit in order to convert their busi-

[37] The field work referred to comprises two parts: The expert workshop held on 9th February 2005 at the Pontificia Comillas University with representatives of financial institutions and SMSOs, and a survey sent to these two types of institutions and which is presented in Annex II (Survey, 2005).

ness ideas into profitable microenterprises, capable of generating income used to improve living standards. As shown in graphs 3.9 to 3.12, microcredits primarily reach two priority groups: women and immigrants.

With the objective of quantifying the depth of outreach of Spanish microfinance institutions, the Foro Nantik Lum de MicroFinanzas carried out the Survey (2005), in which SMSOs and financial institutions were asked to grade the relevance (high, medium or low) of the following client selection indicators.

i) Economic indicators:
- Income level
- Alternative income sources in household
- Savings
- Size of the household
- Number of dependants
- Size of the dwelling or number of rooms
- Recipient of public subsidies

ii) Training and employment situation indicators:
- Level of education
- Technical skills
- Previous profession or activity
- Months of unemployment
- Instability of current job

iii) Health indicators:
- Chronic illnesses affecting them or their family
- Emotional problems or failure
- Addiction to drugs or alcohol

iv) Social stability indicators:
- Family stability
- Relationship with neighbours
- Social ties

v) Indicators of business aptitude:
- Entrepreneurial spirit
- Previous business experience
- Business training

82

The results show that SMSOs and financial institutions favour potential clients with an entrepreneurial profile, alternative economic possibilities, specific technical skills, previous work experience, and family and social stability. A more detailed analysis of the results is provided in figure 3.3.:

Figure 3.3.
Degree of use of the selection indicators for clients

RARELY USE

- Size of the dwelling or the number of rooms
- Relationships with neighbours
- Recipient of public subsidies
- Months of unemployment

SOMETIMES USE

- Level of education
- Number of dependants
- Previous business experience
- Household size
- Instability of current employment
- Lack of chronic illnesses affecting them or the family
- No addiction to drugs or alcohol
- Lack of emotional problems
- Business training

USE OFTEN

- Entrepreneurial spirit
- Income level
- Technical skills
- Alternative income source in the household
- Savings
- Previous profession or activity
- Family stability
- Social ties

Source: Survey (2005).

These results were compared to the opinions of experts who participated in the Foro Nantik Lum de MicroFinanzas workshops, who unanimously stated that microcredit mainly reach people capable of running a microbusiness successfully. Thus, in Spain, there is reluctance to disburse microloans to “the poorest of the poor”. In order to access the poorest strata, mentoring and training in business management prior to the granting of the microloan is required. The cost of providing these services and the inherent credit risk are still perceived as very high by Spanish financial institutions and SMSOs.

Unlike the trend in the developing world, the microcredit system in Spain considers it more appropriate to care for the poorest strata through subsidies as opposed to accepting the challenge and opportunity of sustainable development provided by microcredit.

3.6.2. Project selection criteria

The Survey (2005) carried out on SMSOs and financial institutions by the Foro Nantik Lum de MicroFinanzas also incorporated an assessment of the degree of use of the following four project selection parameters:

i) Project viability
ii) Client state of social and financial exclusion
iii) Job creation potential of project
iv) Trust in the SMSO presenting the project

From the results obtained, the criterion of project feasibility was clearly the most important factor in the financing decision, followed by the client's state of social and financial exclusion and the project's capacity for creating employment. In the specific case of financial institutions, trust in SMSOs shares second place with the beneficiary's social exclusion status.

Figure 3.4.
Degree of use of project selection criteria

Source: Rico, Lacalle, Ballesteros and Durán (2005).

The strong priority given to the criterion of project feasibility in comparison to criteria of a more social nature can be considered as further proof that the most vulnerable population segments are regrettably excluded by the current microcredit system. At present, the system is not fully confident in the ability of the poorest strata to repay a microcredit, and thus prefers to offer non-returnable subsidies[38].

3.7. Proposals for the improvement of the Spanish microcredit model

Having analysed the limitations in the depth of outreach and recognizing the growing body of experience in the granting of microcredit, the Foro Nantik Lum de MicroFinanzas aims to promote actions for the improvement of the Spanish model. In the expert workshop[39] held with representatives of financial institutions and SMSOs, a proposal was made to debate which improvements should be adopted in order to enhance the management and impact of microcredit. The main proposals suggested are shown below:

[38] Due to the complexity and relevance of this issue, we recommend that all involved agents jointly conduct further research on social, political and economic impacts.
[39] Refers to the expert workshop held on 9th February 2005.

A) Improvement proposals put forth to financial institutions by SMSOs

Figure 3.5.
Improvement proposals by SMSOs

Social Selection Criteria	Financial institutions are recommended to use beneficiary selection criteria not only based on project feasibility, but also on social and financial exclusion indicators in order for micrloans to reach the most vulnerable strata of society.
Financial Support	Since SMSOs play a very important social function in their socio-labour integration work, financial institutions and the Public Administration should provide greater commitment and financing. SMSOs need greater financial support in order to: • Provide more training and follow-up services. • Reinforce their technical and organisational structures.
Standardisation	The standardisation and homogenisation of procedures and client services would promote both fairness and quality.
Flexibility	Financial institutions must increase the flexibility of microcredit terms and conditions in order to address the financial needs of beneficiaries. For example, the creation of tailor-made products or bridge loans in order to meet cash-flow needs.
Better communication	*Greater communication between SMSOs and financial institutions:* Financial institutions must assign microcredit staff with an in-depth knowledge of the institution's microcredit model in order to provide SMSOs and clients with better service. The appointment of a single programme contact has been suggested. *Greater internal communication in financial entities:* In some cases, SMSOs have detected inefficient and inadequate communication between banking agencies and their central office. This slows down the decision-making process in the granting of microcredits.
Technical Support	Financial institutions must share their technical resources– operational tools and technology – to help professionalize the services of SMSOs.

Feedback	SMSOs want feedback on the rejection microcredit applications as a means for learning and future improvements.
Avoid cross selling	The financial institution should not offer the microcredit client additional banking products since this creates confusion and discomfort.
Greater in-house awareness	Financial institutions and their employees must be fully aware of microcredit as a mechanism for improving the living standards of clients.

Source: Authors based on the information provided by SMSOs.

B) Improvement proposals to SMSOs by financial institutions

Figure 3.6
Improvement proposals by financial institutions

More representation	Some financial institutions believe SMSOs should be included in their microcredit client selection committee.
More mentoring	SMSOs should provide greater monitoring of clients during the loan period, not only during the first phase of the project, in order to promote long-lasting client commitment.
More training	SMSOs should focus more on support and training in business management.
Respect for the decision-making period	SMSOs must respect and understand that financial institutions need to examine microcredit applications thoroughly since they are the ones who provide funds and assume the credit risk.
Promote more direct contact with clients	SMSOs should promote working groups comprised of clients, SMSOs representatives and financial institution employees. The aim is to improve communication between the three principal actors in order to improve and expedite procedures.

Source: Authors based on the information provided by financial institutions.

C) Joint proposals

Amongst the recommendations for improvement, a series of bilateral objectives between SMSOs and financial institutions were made, as detailed below:

- Greater mutual knowledge.
- Build and learn together.
- Transparency.
- Greater and better communication.

In short, given the strong support that microcredit activity receives from financial institutions (mainly savings banks) and the Spanish Public Administration, there is no shortage of microcredit funds. Indeed, we conclude that *the most difficult part is not obtaining the microcredit, but in ensuring the success of the business project*. Thus, the support of the SMSO is fundamental. Although the existing model works well, it certainly is not the only alternative, and thus should be fine-tuned, taking into account the strengths of other systems.

CHAPTER 4.

MICROCREDIT AND IMMIGRATION

True as it may be that migratory movements have taken place since the beginning of time, since the end of World War II – and especially since the end of the eighties – population movements have risen substantially. Economic and social globalisation, the fall of communism, industrial displacement, the growing gulf between the rich and poor worlds, and rapid development of transportation and communication technology are just a few of the key factors that help explain increasingly complex demographic changes. Millions of individuals with no future prospects in their own countries have headed to developed countries in search of a better life. Over the last several years, we have also witnessed a rise in migratory shifts whose causes are not purely economic, but rather, the result of armed, ethnic, and religious strife, culminating in millions of refugees far from their countries of origin. Since this is a global problem, global solutions must be found. Solutions, however, must take into account the fundamental human right of freedom of movement, as expressed in the first part of Article 13 of the Universal Declaration of Human Rights:

> *"Everyone has the right to freedom of movement and residence within the borders of each state."* (December 10, 1948, Chaillot Palace, Paris)

In recent decades, many of the world's richest nations have imposed regulations that violate the spirit of the abovementioned Article 13. In light of the disappearance of the vast majority of barriers to international trade of goods and services among the most prosperous countries, it is alarming to see that these same countries are responsible for erecting an ever-larger number of barriers that restrict the free movement of human beings.

Spain, for instance, has been affected by these global demographic changes. Today, it is increasingly common to hear news of mass inflows of immigrants. According to sources at the National Institute of Statistics (INE, 2006), the total number of immigrants rose from 638,085 on January 1, 1998 (equivalent to 0.6% of the total population), to 3,730,610 on January 1, 2005 (equivalent to 8.5% of the total population)[40].

[40] According to provisional figures released by the Municipal Register, the number of registered foreigners as of January 1, 2006 totals 3.88 million, amounting to 8.7% of the total population (INE, 2006).

The debate surrounding the economic costs and benefits of immigration is riddled with controversy. While proponents argue that immigration supports an ageing population and shoulders part of the social burdens of the welfare system, critics claim that the disadvantages of mass inflows of unskilled immigrants outweigh the advantages, citing the following social problems in the medium term: unemployment, xenophobia, public safety issues, collapsed health care and school systems, and so on.

The aim of this chapter is to defend the hypothesis that in Spain, microcredit is a useful tool for integrating legal immigrants in work-related, social and financial terms. Our thesis suggests that immigrants who are unable to find a wage job, but who are capable of setting up a business with the help of a microcredit, can achieve both financial independence and social integration. Moreover, as a result of their Social Security contributions, immigrants can help shoulder some of the burdens of the welfare system and reduce the dependency ratio[41]. Likewise, microcredit can aid in the elimination of unwanted 'side-effects' of immigration in our society: if microcredit is used to further social integration and provide stable employment, problems that stem from unemployment and marginalisation can be appropriately addressed. All these benefits are realizable as long as immigrants can meet the required microcredit client selection criteria: 1) exclusion from the formal financial system due to lack of asset-based collateral and guarantors, 2) belonging to a vulnerable population group with a high risk of exclusion on account of unstable employment and lack of roots in Spain, and 3) presence of an entrepreneurial attitude. As we shall see in this study, since many immigrants fit the abovementioned profile, they have become one of the key beneficiary groups of Spanish microcredit programmes.

To achieve this goal, this chapter will first analyse the current demographic trends in Spain and how the arrival of immigrants helps reduce state dependency ratios, increase money remittances to impoverished nations, and boost Spanish Gross Domestic Product (GDP) growth. Second, we will examine how microcredits can be a useful tool for the social, employment, and financial integration of immigrants. Third, we will look at the most recent data available on microloans granted to immigrants in Spain via programmes offered by Savings Banks and the government ICO Microcredit Line.

[41] A term which we shall analyse later on in this chapter, defined as the ratio of pensioners to working-age individuals.

4.1. The immigrant population in Spain: Recent development and consequences of integration into the Spanish job market

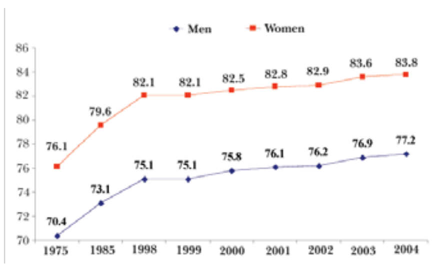
According to the World Bank (2002), over the next fifteen years, an even greater exodus of unskilled workers from developing to developed countries will occur. During this time period, countries with high population and poverty growth rates, such as in South Asia and sub-Saharan Africa, will experience a dramatic rise in the unskilled labour force. In Europe and Japan, however, the working-age population will shrink as a result of ageing populations and low birth rates. Unless migratory flows towards the latter areas take place, the dependency ratio will increase dramatically, and therefore, threaten the sustainability of the welfare system (pensions, health care and social services). Consequently, there is a potential mutual economic benefit in combining developed countries' capital and technology with labour from their developing counterparts. Through immigration, developed countries can reduce their dependency ratio, while developing counties can raise wages due the reduction of the labour supply and enjoy the benefits of remittances.

4.1.1. Recent demographic trends in Spain

Today, Spain is among the many industrialised nations affected by an ageing population, which can be potentially alleviated by the steady growth of economic immigration from developing countries. Recent demographic trends in Spain show us how the arrival of working-age immigrants has helped reduce the relative proportion of senior citizens in the population as a whole.

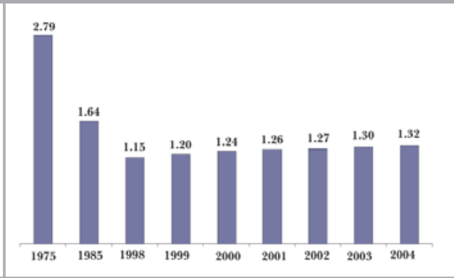
As seen in Graphs 4.1. and 4.2., over the last four decades, life expectancy of Spaniards at birth has gradually risen, from 70.4 years for men and 76.1 for women in 1975 to 77.2 and 83.8 years, respectively, in 2004. Likewise, the birth rate has also declined sharply over the same period from 2.79 children per woman to 1.32, mainly a result of women joining the workforce and changing family structures.

Graph 4.1.
Life expectancy in Spain 1975-2004 (in years)



Source: INE (2006c).

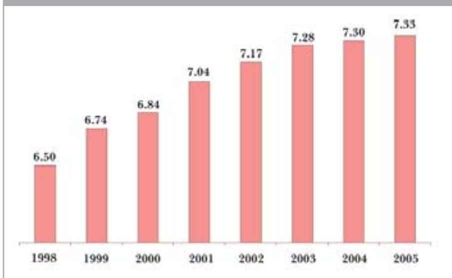
Graph 4.2.
Birth rate in Spain 1975 -2004 (number of children per woman)



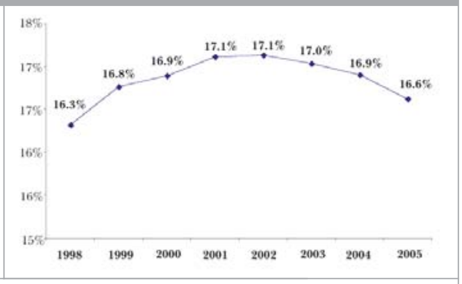
Source: INE (2006d).

The combination of rising life expectancy and a declining birth rate has led to an increase in the average age in Spain. The number of individuals aged 65 and over has risen considerably in recent years, reaching 7.33 million in 2005, approximately 16.6% of the population (see Graphs 4.3. and 4.4.).

Graph 4.3.
Population aged 65 and over in Spain (in millions)



Graph 4.4.
Percentage of population aged 65 and over in Spain



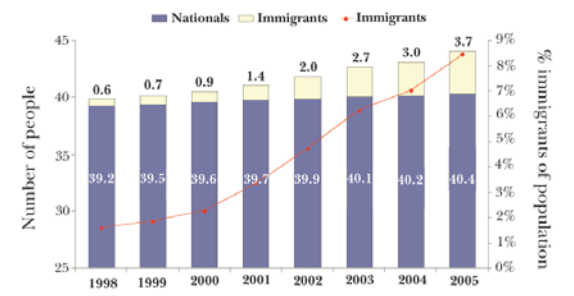
Source: INE (2006b).

As illustrated by the above graphs, however, the percentage of the population aged 65 or over has declined from 2001 onwards, directly coinciding with the massive arrival of working-age immigrants. According to the Municipal Register[42] (INE, 2006b), the number of immigrants stood at 3,730,610 on January 1, 2005, equivalent to 8.5% of the total population, as opposed to 638,085 on January 1, 1998, equiva-

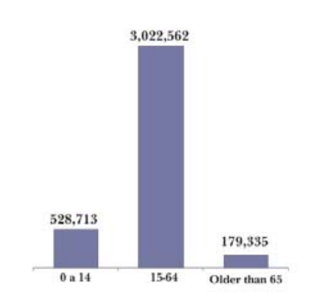
[42] The Municipal Register is a valid source from which to estimate the number of foreign-born immigrants, since one does not need to be a legal resident to register. Furthermore, there are incentives for immigrants to register as it provides them access to social benefits (for example, health care or education), regardless of legal status.

lent to 0.6% of the total (Graph 4.5.). Additionally, the highest volume of foreigners fell into the 15-65 age category. In 2005, only 4.8% of immigrants were aged 65 or over, as opposed to 16.6% of the overall country's population (Graph 4.6.).

Graph 4.5.
Demographic Composition of Spain 1998-2005 (in millions of inhabitants and as percentage)



Graph 4.6.
Breakdown of immigrant population in Spain by age, 2005 (inhabitants)



Source: INE (2006b).

4.1.2. Integration of immigrants into the Spanish labour market

The inflow of immigrants into Spain over the last few years is a plural migratory flow that Aja (1999) classifies into four major groups based on socioeconomic criteria:

a) Immigrants who arrive with transnational capital investments, mainly from Europe, North America and Japan.

b) Investors and pensioners from Northern Europe who settle in tourist areas to enjoy milder weather conditions and a lower cost of living.

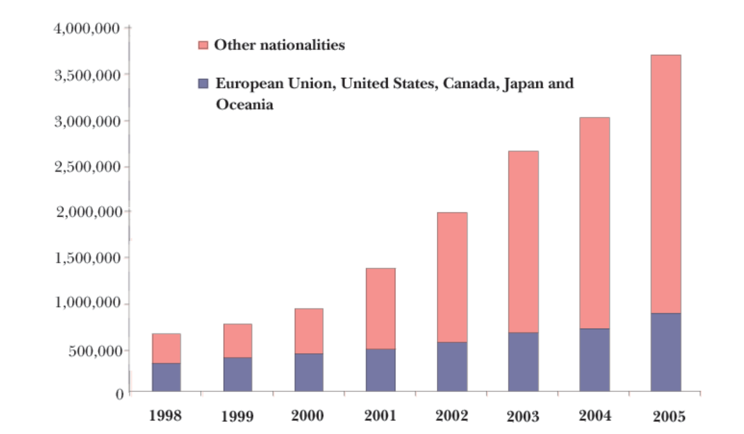
c) Relatively highly skilled workers in search of better employment opportunities in Spain, typically from Latin America or Europe. These workers meet shortages in labour supply.

d) Unskilled workers driven by instability or chronic unemployment in their country. This group is made up of African immigrants, as well as a smaller group of Latin American, Asian and East

European immigrants. From a labour standpoint, this group finds temporal employment in sectors demanding low skills, often in the black economy.

According to data released by the Municipal Register (Graph 4.7., INE, 2006b), there has been a noteworthy increase in the number of immigrants from developing countries, accounting for 77% of total foreigners registered in Spain.

Graph 4.7.
Breakdown of inmigrant population in Spain by origin 1998-2005 (inhabitants)



Source: INE (2006b).

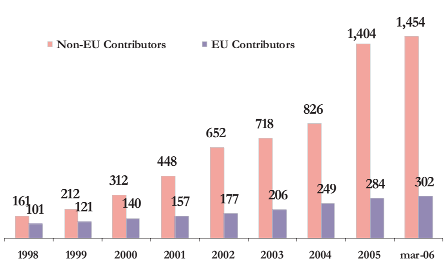
As shown in Graph 4.8., according to Social Security statistics (Seguridad Social, 2006)[43], immigrants have been gradually incorporated into the Spanish labour market. Specifically, data available on March 31, 2006 revealed that 1,454,298 non-EU workers and 302,131 EU workers were registered as employed. In particular, the special legalisation process that took place in 2005[44] led to a sharp increase in registered employed non-EU immigrants. Currently, we estimate that approximately 50% of immigrants legally participate in the labour market.

[43] Social Security statistics provide extensive information on legal immigrant workers in the labour market.

[44] On December 30, 2004, the Cabinet passed Royal Decree 293/2004 and on January 11, 2005, approved the new Code of Organic Law, on the rights and freedoms of foreigners in Spain and their social integration. This new Code established a special process for foreign workers to legalise their status during the period of February 7 - May 7, 2005.

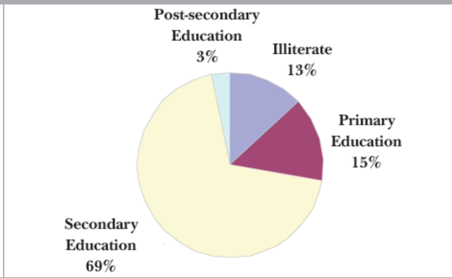
However, as of December 31, 2004, only 3% of employed immigrants held higher education degrees, and surprisingly, 28% were illiterate or had only received primary education, as shown in Graph 4.9.

Graph 4.8.
Immigrant employment figures 1998 - 2006 (March) (' 000s inhabitants)



Source: Seguridad Social (2006).

Graph 4.9.
Level of education of registered employed immigrant as of December 31, 2004 (as percentage)



Source: Seguridad Social (2006a).

In summary, immigration to Spain falls into two categories: "first, the traditional immigration of Western European citizens in search of a milder climate and a lower cost of living; and second, on the rise in recent years, groups that seek higher standards of living and employment than would be possible in their countries of origin."[45] (Angulo, 2003, p.8).

4.2. Consequences of immigrant integration in Spain

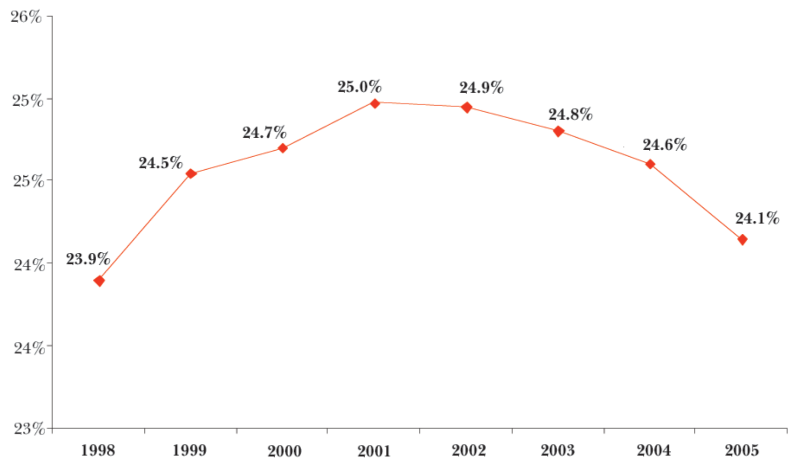
Due to the labour market integration process, immigrants have not only helped to reduce the dependency ratio and boost per capita GDP growth in Spain, but have also generated wealth in their home countries as a result of remittances.

4.2.1. Reduction in the dependency ratio

With increased immigration to Spain over the past decade the proportion of working age individuals has increased, thereby decreasing the dependency ratio, defined as the ratio of pensioners to working age citizens (aged 15-65).

[45] Authors' translation.

Graph 4.10
Dependency ratio in Spain: pensioners over working-age inhabitants (as percentage)



Source: INE (2006b).

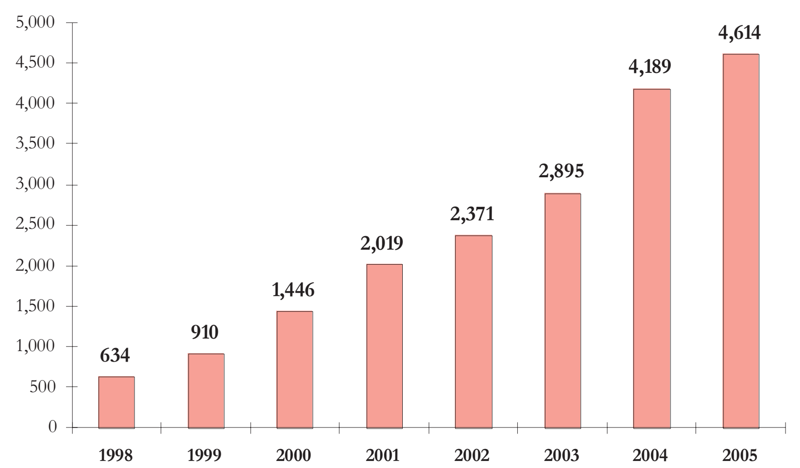
As we can see in Graph 4.10., the dependency ratio has decreased consistently since 2001, declining from 25% in 2001 to 24.1% in 2005[46].

4.2.2. Rise in remittances to countries of origin

Money remittances of employed immigrants in Spain have also generated wealth in developing countries. Due to lack of resources, a large part of the immigrant population in Spain has had to assume a high level of debt in order to finance their immigration. As soon as these people join the workforce, remittances, defined as money transfers by immigrant workers to their families left behind in their home countries, are sent via the banking system, remittance companies, or local telephone centres that cater to immigrants. Between 1998 and 2005, workers' remittances rose seven-fold in Spain (Graph 4.11.).

[46] Based on Spanish population projections made by the authors Puente and Gil (2004) who claim that immigration cannot solve future pension financing problems, the Bank of Spain (Banco de España, 2005) estimates that the dependency ratio will reach 56.1% in 2050 and 49.1% in 2070.

Graph 4.11.
Worker remittances sent from Spain
(in million of euros)



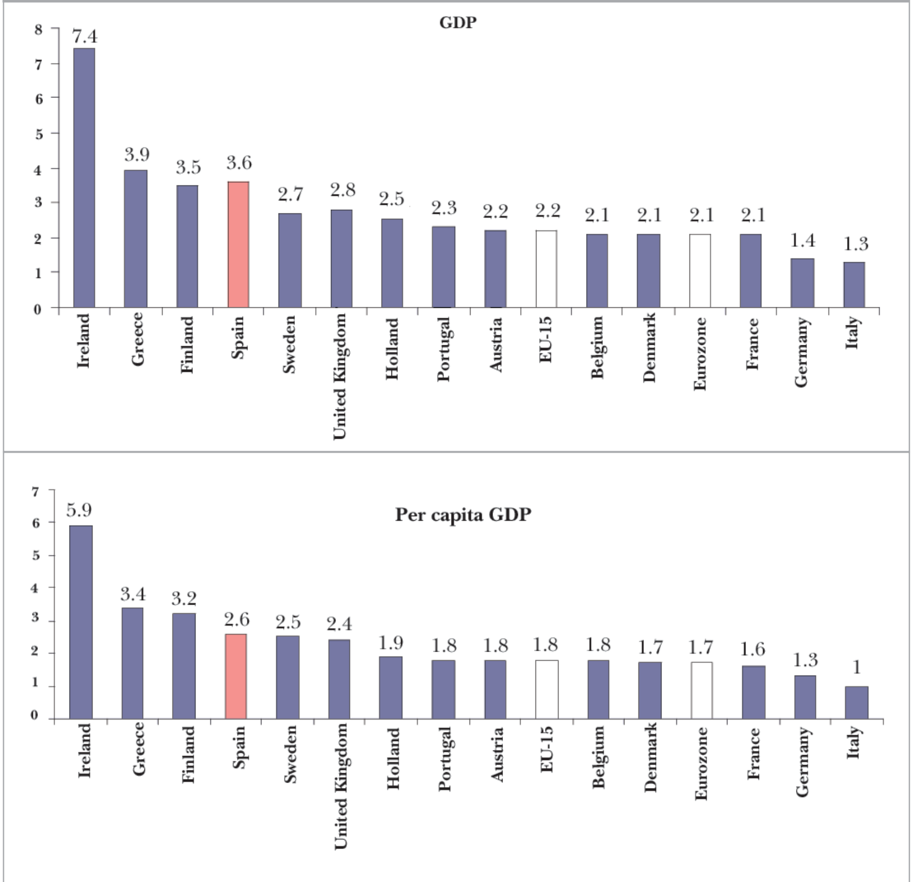
Source: Banco de España (2005).

4.2.3. Increase in Spain's per capita GDP growth rate

Earlier we saw how the rise in immigration over the last decade has driven down the dependency ratio. Today there are more workers, more tax payers, more Social Security contributors, and less unemployment than in the past. Consequently, the increased dynamism of the economy has had a positive impact on GDP and per capita GDP levels.

As shown in Graph 4.12a, the rise in immigration coincides undeniably with the robust growth of the Spanish economy in comparison to some of its EU counterparts, such as Germany, France and Italy. Indeed, after Ireland and Greece, Spain is the European Union-15's third fastest growing economy (3.6%). If we consider this growth rate in terms of per capita GDP (a key variable in analysing a population's well-being), Spain has clearly become the fourth fastest-growing economy (2.6 %), far ahead of the EU-15 and Euro-zone average, as shown in Graph 4.12b.

Graph 4.12.
Annual GDP growth and per capita GDP growth in the EU-15 1995-2005 (as % of 1995 prices)



Source: Caixa Catalunya (2006).

There are various factors that can explain these varying growth rates, including differences in productivity, labour intensity (number of hours worked) or in industry composition.

Caixa Catalunya (2006) analyzed the impact of immigration on per capita GDP in immigrant host countries and presented the following line of argumentation:

a) The population in Spain grew 10.7% between 1999 and 2005. The EU-15 population, however, rose only 4%. In major

European countries (Germany, Italy, Great Britain and France), the population increase was even lower.

b) Population increases boost per capita economic growth due to three main reasons: 1) Promotes greater specialisation and investment in knowledge (Becker *et al.* 1999); 2) Increases the working age population (Williamson, 1998, and Bloom and Williamson, 1998); and 3) Stimulates aggregate demand, which in turn encourages investment (Palley, 1996 and 1997 and Setterfield, 2003). To test this hypothesis, Bloom and Williamson (1998) calculated a series of coefficients that factor in the positive and negative aspects of workforce growth, using two main variables: population growth and growth in the working age population.

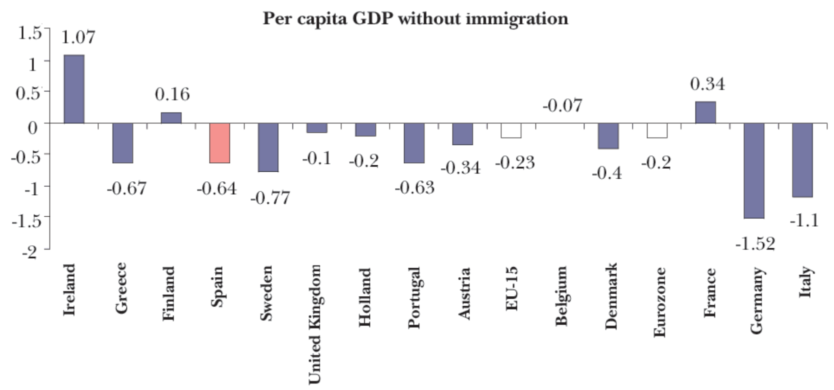
c) By applying Bloom and Williamson's coefficients to EU-15 countries, Caixa Catalunya concluded that in Spain, the demographic impact on per capita growth is higher than among other member countries. In fact, 145% of per capita GDP growth in Spain can be attributed to demographic changes, signifying that without immigration, per capita GDP growth would have been negative. In short, had Spain not enjoyed a demographic boom, growth rates would have been the lowest in the region.

d) In light of these results, similar conclusions can be made about GDP. According to the Caixa Catalunya report (2006), if Spain had not witnessed the previously mentioned demographic boom, the GDP growth rate would have remained at around 1% per year over the 10 year period under study.

e) Immigration has had a major impact on population increases in the EU-15 and in Spain. Over the period in question (1995-2005), the EU-15 population has risen 4.8%, of which 3.7% can be attributed to immigration and the remaining 1.2% to the country-born population. In Spain, the population growth attributed to immigration is even higher. Between 1995 and 2005, the population rose by 10.7% – 8.4% from immigrants and 2.3% from natives. In summary, 76% of EU population growth is due to immigration and only 24% to native birth rates. In Spain, these percentages are 78.6% and 21.4%, respectively.

f) The Caixa Catalunya report (2006) concludes with a simulation, in which the Bloom and Williamson coefficients are applied to a hypothetical case in which EU-15 countries receive no immigrants. According to their conclusions (displayed in Graph 4.13.), the per capita GDP of the EU-15 would decline by 0.23% annually, whereas in Spain the rate of decline rate would be 0.64%, less severe than only three other countries: Sweden, Italy and Germany. Similarly, only three countries (Ireland, France and Finland) would have positive per capita GDP growth levels had they not received any immigrants.

Graph 4.13.
Per capita GDP growth in the EU-15 without immigration, 1995-2005 (as % of 1995 prices)



Source: Caixa Catalunya (2006).

The conclusions of Caixa Catalunya (2006) are in line with a recent report on immigration and the Spanish economy, published by the Government Economic Office (Oficina Económica del Presidente, 2006). As stated in the report, GDP growth is due to per capita GDP growth plus the population growth. As shown in Table 4.1., during the last decade, the GDP growth rate has been 3.6%. During the last five years, the growth rate has been slightly lower at 3.1%, but the contribution of population growth (1.5%) has been remarkable, with the immigrant population growth (1.2%) accounting for 40% of the GDP increase.

Table 4.1.
Breakdown of Spanish economy growth

			Population		
	GDP	Per capita GDP	Total	National	**Immigrants**
1996-2000	**4.1**	3.7	0.4	0.1	**0.3**
2001-2005	**3.1**	1.6	1.5	0.3	**1.2**
1996-2005	***3.6***	*2.7*	*0.9*	*0.2*	***0.7***

Source: Oficina Económica del Presidente (2006).

Likewise, the report points out that per capita GDP depends on three variables: working age people, employment rate and labour productivity. In the case of Spain, during 2001-2005, immigration has had a net positive impact of 0.4 points to per capita GDP (1.6), according to these variables[47] (Table 4.2.)

Table 4.2.
Contribution of immigration to GDP per capita

		Immigration			
	Per capita GDP	**Total**	Demographics	Employment	Productivity
1996-2000	**3.7**	**0.2**	0.1	0.1	0.0
2001-2005	**1.6**	**0.4**	0.4	0.2	-0.2
1996-2005	***2.7***	***0.3***	*0.2*	*0.3*	*-0.1*

Source: Oficina Económica del Presidente (2006).

The report concludes that out of the 3.1% GDP growth rate for the period 2001-2005, immigration accounts for 1.6%, due to 1.2% population contribution and 0.4% per capita GDP contribution.

[47] For an in-depth analysis, see Oficina Económica del Presidente (2006).

4.3. Microcredit as a tool for social, employment and financial integration

Defined as a community solidarity instrument that provides vulnerable individuals with access to capital and boosts their savings capacity, microloans should be *designed to integrate marginalized groups into Spanish society*.

The prime objective of microloans has never been the repayment of the loan itself, but rather the development and social integration of the client. As a result, microcredits play a pivotal role in the fight against marginalisation of certain collectives in developed countries.

Immigrants belong to a group that is subject to both social and financial exclusion. They have limited access to social rights and political participation. They may not know the language. Their legal status may be questionable. They may be the target of racial discrimination. And in many cases, their health may suffer on account of the hardships endured during the journey from their home countries. In addition, immigrants often cannot access the formal financial system.

Therefore, microcredit is a critical solidarity tool that aims to reduce or eliminate social and financial exclusion, thus improving the welfare of millions of people. Yet if the fight against social and financial exclusion of immigrants is to be successful, a comprehensive, long-term approach to confront their vulnerabilities must be developed. In short, microcredit should not be used in isolation as a panacea for social and financial exclusion, but rather, as a critical element in a wide range of social services.

In this regard, organisations should provide immigrants with Spanish language courses, housing services, networking opportunities with established immigrant groups, food bank services, health care monitoring, and legal counselling. Once grave social vulnerabilities are addressed, microcredit can be used to facilitate entry into the labour market by providing immigrants with a secure, self-directed method of income.

Since all of these diverse social services confront different problems encountered by immigrants, they should be carried out holistically. Indeed, if one of them is omitted, an individual's integration would be incomplete, and he or she may remain excluded despite all efforts.

In Spain, only a few Non-Governmental Organisations (NGOs) have adopted a holistic approach to the social and financial integration of immigrants[48]. Overall, organisations that work with immigrants can be generalized into two main groups: 1) organisations devoted to providing social support and 2) SMSOs that specialise in aiding microfinance programmes. In the future, this discontinuity in support for immigrants will have to be bridged as a means of bringing out the synergies among different services offered.

Despite these limitations, SMSOs in Spain have contributed greatly to immigrant employment. First, they work as intermediaries between the immigrant loan applicant and the financial institution. During this initial phase, legal and business counselling is provided to guide business plan development. Once the loan is granted, the SMSOs follow-up and support the microentrepreneur/immigrant so that he or she can pay back the loan and improve the microbusiness. SMSOs also ensure that the immigrant applicant satisfies the client selection criteria, in that he or she is excluded from the formal financial system and demonstrates entrepreneurial qualities. Since the SMSOs play a major role in the success or failure of the business, they are critical to the immigrant integration process[49].

In Spain, however, SMSOs have limited resources to carry out their role as intermediaries, thus making it difficult for them to invest in microbusiness training and search for potential beneficiaries. Consequently, current immigrant microcredit clients are those with the initiative, contacts, and support necessary to be able to present a good business plan. In most cases, these individuals are not the most vulnerable segment of the immigrant population, although they also need assistance in order to achieve social integration.

4.4. Microcredit among immigrants in Spain

Immigrants are one of the main microcredit beneficiary groups in Spain. Despite the fact that their socioeconomic and employment status makes it hard for them to gain access to traditional sources of financing, many immigrants possess entrepreneurial drive. Subsequently, microcredit enables them to exercise their right to credit and start their own microenterprises.

[48] For example, the Spanish Red Cross provides a comprehensive set of services, from immediate care of immigrants upon arrival to support for social and job-related integration through training and job skill development.
[49] For more information on the work carried out by SMSOs, see Chapter 3.

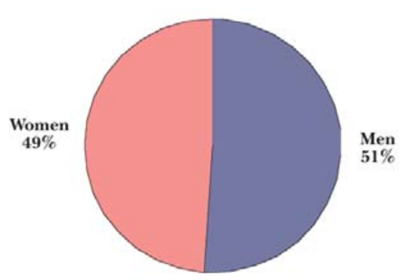
4.4.1. The scope of microcredit programmes for immigrants

This section will now analyse the scope of the main microcredit programmes in Spain in relation to the immigrant population[50].

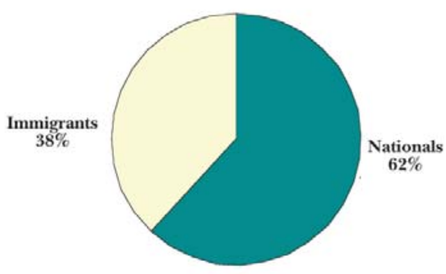
A. The ICO Microcredit Line

As we can see in Graphs 4.14. and 4.15., as of December 2004, immigrants accounted for 38% of all ICO Microcredit Line clients, broken down into approximately 19% male recipients and 19% female.

Graph 4.14.
ICO Microcredit Line clients according to gender



Graph 4.15.
ICO Microcredit Line clients according to nationality



Source: ICO (2005).

B. Savings Bank programmes [51]

The growth in the total volume and number of microloans granted in recent years by savings bank programmes, especially between 2004 and 2005, is notable. As we can see in Graph 4.16; the total number of microloans granted in 2005 (1,427) rose 42% over the number reported in 2004 (1,005). If we break this down in terms of borrower natio-

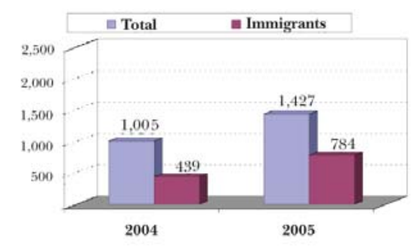
[50] In Spain, there are two main types of microcredit programmes:
- Spanish Government Programmes, notably, the ICO Microcredit Line.
- Savings banks Proprietary Programmes.

[51] Study of the number of microcredits granted by Savings Banks was done through a data survey carried out in the first six months of 2006 by the Foro Nantik Lum de MicroFinanzas in collaboration with the EMN. Information from only six Savings Banks was used (BBK, Caixa Catalunya, Caixa Galicia, CajaGranada, Colonya Caixa Pollença and "la Caixa"), virtually representing all microcredit activity in Spain. As a point of clarification, the Savings Bank we refer to as Savings Bank B provided the data pertaining to microcredits granted to immigrants in 2004 (both in number and in euros) as an estimated percentage of all microcredits granted. For reasons of confidentiality, the identities of the different Savings Banks are not revealed, and they are referred to as Savings Bank A, B, C, D, E and F.

nality, we can see that the number of microloans granted to immigrants has grown even more substantially (79%), rising from 438 to 784. Consequently, these figures suggest that the relative proportion of loans to immigrants has risen from 44% of all microloans to 55%.

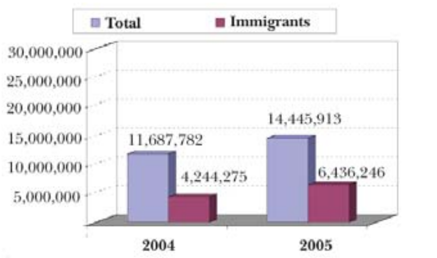
Graph 4.17. illustrates this same phenomenon, but in terms of monetary value. The chart illustrates how the total amount of euros lent out in 2005 rose 24% over 2004 figures, whereas the volume specific to immigrants grew more substantially at 52%. Additionally, whereas immigrants were on the receiving end of 36% of the total amount granted in 2004, this figure rose to 45% in 2005.

Graph 4.16.
Number of microloans disbursed by savings banks in 2004 and 2005



	2004	2005	Increase
Total	1,005	1,427	42%
Immigrants	438	784	79%
% Inmig/Total	44 %	55 %	

Graph 4.17.
Volume of microloans disbursed by savings banks in 2004 and 2005 (euros)



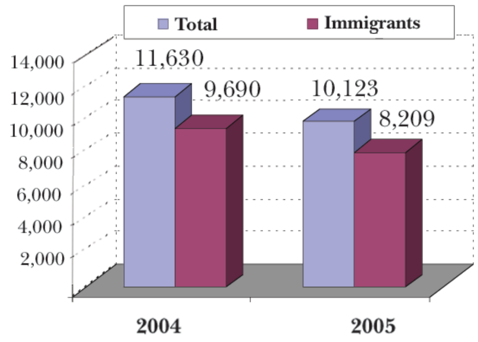
	2004	2005	Increase
Total	11,687,782	14,445,913	24%
Immigrants	4,244,275	6,436,246	52%
% Immig/Total	36 %	45 %	

Source: Survey (2006).

If we analyse the average loan size over time (Graph 4.18.), however, we can see that the value has dropped by 13%, down from an average of 11,630 euros per microloan in 2004 to 10,123 euros in 2005. This amount has declined even further (15%) for immigrants from an average of 9,690 euros to 8,210 euros[52]. This change may be interpreted as greater penetration of microloans into the most impoverished segments of society, among Spanish-born and immigrants alike. Other factors, however, may also explain this change, such as resource constraints or borrower preferences to take out multiple loans of smaller sizes due to increase competition among microfinance institutions.

[52] This analysis was performed using data provided by the Savings Banks. A more complete statistical analysis is needed to factor in the specific details on each microcredit granted, so as to determine the degree of dispersion between all clients as well other statistical characteristics, such as the type of distribution.

Graph 4.18.
Average loan size in 2004 and 2005
(in euros)



	2004	2005	Increase
Total	11,630	10,123	(13%)
Immigrants	9,690	8,209	(15%)

Source: Survey (2006).

Individual analysis of each Savings Bank's data provides even more revealing comparisons. As we can see in Graphs 4.19. and 4.20. in 2004, each savings bank disbursed an average of 73 microloans to immigrants (out of an average of 168 loans granted per institution), amounting to a total of 707,379 euros (out of an overall average volume of 1,947,964 euros per institution). In 2005, each savings bank granted 131 microloans to immigrants (out of an average total of 238), totalling 1,086,374 euros (out of a overall average volume of 2,429,402 euros). The standard deviations, however, show very high disparity among the various savings banks, signifying that the abovementioned figures ought to be considered with a grain of salt. Indeed, the asymmetry coefficient – a measure of the ratio of the standard deviation to the average – indicates a high level of dispersion. This error dispersion is higher in data on total microloans disbursed than on microloans disbursed only to immigrants, and higher in euro monetary volumes than in the number of microloans disbursed

Graph 4.19.
Averange number of microloans disbursed by each savings bank

	2004	2005
Total Average	168	238
Total Deviation	166	211
Asymmetry Coefficient	0.99	0.89
Immigrant Average	73	131
Immigrant Deviation	50	96
Asymmetry Coefficient	0.68	0.74

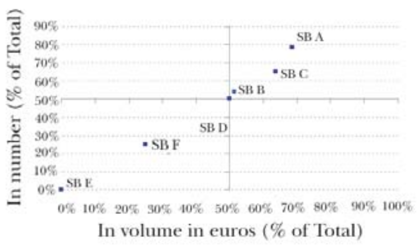
Graph 4.20.
Average total amount in euros granted by each savings bank

	2004	2005
Total Average	1,947,964	2,429,402
Total Deviation	2,569,686	3,026,519
Asymmetry Coefficient	1.32	1.25
Immigrant Average	707,379	1,086,374
Immigrant Deviation	591,882	852,619
Asymmetry Coefficient	0.84	0.78

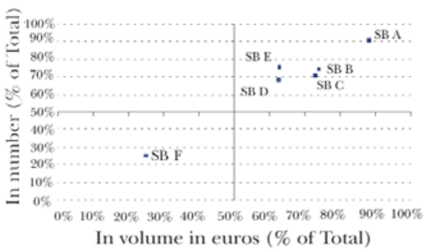
Source: Survey (2006).

Dispersion is also evident in the proportion of microloans each savings banks allocates to immigrants. Graphs 4.21. and 4.22. show the positioning of each Savings Bank over the 2004-05 period through the following variables: the relative proportion of the number of microloans that each savings bank allocates to immigrants (as a percentage of the total number of microloans granted in a particular year) and the relative proportion of the volume of microloans in euros that each savings bank allocates to immigrants (as a percentage of the total volume of microloans granted in a given year).

Graph 4.21.
Proportion of microloans disbursed to immigrants in 2004 by each savings bank (as % of total microloans granted)



Graph 4.22.
Proportion of microloans disbursed to immigrants in 2005 by each savings bank (as % of total microloans granted)



Source: Survey (2006).
SB stands for Savings Bank.

In 2004, savings bank E did not grant any microloans to immigrants because the programme had not yet started and savings bank F allocated only approximately 25% of its microloans (both in number and in monetary value) to immigrants. The remaining savings banks allocated over 50% of all microloans to immigrants.

In 2005, all savings banks boosted their level of microcredit activity with immigrants, reaching levels above 60% (or above 90%, in the case of savings bank A), except for savings bank F, which held steady at 25%. Due to the more limited activity of savings bank F, the sector average shows that immigrants receive only 55% of all microcredits loans and approximately 45% of total loan volume (in euros), despite the fact that most savings banks have targeted immigrants as their main clients. (refer to Graphs 4.14. and 4.15.)[53].

4.5. The impact of microloans to immigrants on public expenses and revenues

According to research by Gutiérrez Nieto (2005) on the economic impact of microloans on public employment policies, microloans are an effective tool in creating jobs, thereby driving down public spending on unemployment benefits. According to Nieto, the cost of granting a microloan – which creates at least one job – is lower than the government's cost of unemployment benefits to the individual. The researcher based her analysis on figures from the SMSO Acción Solidaria contra el Paro and analysed data over a 10-year period. The results of the study (see Table 4.3.). reveal that empirically, in 2001, the cost incurred by Acción Solidaria contra el Paro to create one job via a microloans totalled 3,177 euros, significantly lower than the 14,971 euros that the government paid out in unemployment benefits per individual.

[53] Savings Bank F's behaviour can be explained by the fact that the bulk of its efforts are dedicated to granting microcredits to Spanish women.

Table 4.3.
Impact analysis of cost of job creation using microcredit

Year	Cost per job created via microcredits (euros)	Cost per unemployment beneficiary (euros)
2001	3,177	14,971
2000	3,572	14,277
1999	2,573	13,402
1998	2,853	12,598
1997	2,998	11,419
1996	3,992	1,521
1995	3,456	9,131
1994	4,903	8,813
1993	3,978	9,156
1992	3,736	8,309

Source: Gutiérrez Nieto (2005), using data from Acción Solidaria contra el Paro.

These figures complement data released by the European Commission (2003) which show that the subsidies granted by European governments to each start-up microenterprise cost in the range of 2,000 to 5,000 euros, significantly lower than the 18,000 euros paid out in benefits to an unemployed individual.

Likewise, microcredit can achieve cost savings in the provision of social benefits to immigrants. If the Spanish government were to devote part of its budget to microcredit programmes designed to create microbusinesses and new jobs for immigrants, it would not only boost its public revenues, since the new workers would pay taxes and Social Security contributions, but also reduce social assistance-related costs.

CHAPTER 5.

CONCLUSIONS

As the present study has shown, over the last four years, the number of Spanish institutions providing microcredit has risen and the number of operations carried out has dramatically increased. A few years ago in Spain, virtually no one had heard of this financial tool. But today, the government itself uses microcredits as an economic policy tool to counter unemployment and boost the standard of living of society's most marginalised groups. Microcredit is increasingly used to fight against financial exclusion, which contributes to social exclusion.

Nowadays, what is considered a successful microfinance institution is one which, without straying from its original top priority of reaching the poorest of the poor, eliminates dependence on external financing sources. That is, charging interest increases financial sustainability and thereby the depth of outreach. In this regard, a series of elements can be examined:

- The objectives of financial sustainability and reaching the most vulnerable people MUST be among the priorities of every microfinance institution. If the institution chooses financial sustainability as its chief goal, there is a major risk that said institution will NOT focus exclusively on the most underprivileged, but rather on clients with less default risk, thereby lessening the social impact. While operating and financial sustainability is indeed necessary, the ultimate goal of a microcredit is to aid social and economic development and reduce poverty.

- Nevertheless, charging interest should not be strictly opposed, as it guarantees that the initial resources can reach more people over time.

In Spain, savings banks offer the vast majority of microloans through funds reserved for their Social Work. Today, it is tough to find a private institution in Spain capable of covering the financial and operational costs of disbursing microloans. In all cases, microcredits are either directly or indirectly subsidised through savings bank Social Work funds or covered by national public organisations (for example, ICO) or

European institutions (for example, the European Social Fund or the European Investment Fund).

Microcredit institutions should not require any type of collateral since microcredit was created precisely to provide access to credit to those with no resources or guarantors/co-signers. The only guarantee that should be required is a solidarity group or individual moral guarantee, in which clients are trusted with loan repayment because of conviction in their capabilities or in the financial viability of the project. In Spain, financial institutions substitute collateral with a moral guarantee that SMSOs provide in their selection of feasible business plans and trustworthy clients.

Even though microcredit programmes in Spain are still relatively new, based on the analysis performed in this book, we have drawn up the following conclusions and recommendations to be considered by all agents involved in microcredit programmes in the Spanish context:

- Savings banks play the most important role in the growth of microcredit in Spain through their proprietary programmes and/or public administration initiatives. Savings banks combine their experience in financial brokering with their traditional social vocation. Their programmes rely on Social Microcredit Support Organisations (SMSOs), which link credit providers and microentrepreneurs. The partnerships between savings banks and SMSO's are a unique feature of microfinance provision in Spain.

- The distribution of microcredit in Spain depends on SMSOs which have connections to groups traditionally excluded from the financial sector. The SMSOs work alongside the microentrepreneur and the financial institutions to promote fulfilment of the business plan and repayment of the microcredit. The SMSOs' experience in social work, integration of vulnerable groups, and proper selection of feasible projects facilitates the provision of credit to marginalized collectives ignored by the formal financial sector. Hence, SMSOs can provide a larger customer base for offering other financial products in the future.

- In order to better service both clients and financial institutions, SMSOs must either possess or internally develop professional expertise in the field of social integration and business management. Boosting the professional capacity of the SMSOs requires both technical and financial support from financial institutions and the government.

- Microcredit programmes should adapt to the difficulties inherent in the set-up of any business, and thus take in account the lag before profit generation. Financial institutions must offer grace periods until a stable business cycle can adequately sustain the microcredit repayment cycle. Otherwise, default rates may rise, prompting some risk-averse microcredit programmes to focus on less 'excluded' individuals who have alternative sources of income. Microcredit programmes should provide microentrepreneurs with training programmes in business management and technical assistance/support to ensure business plan development and loan repayment.

- Two criteria are currently considered priorities in the granting of microloans:

    - *Business plan viability*
    - *Entrepreneurial attitude*

  These criteria can put the poorest population segments at a disadvantage, given that the poorest of the poor require a substantial investment in training and support before microloans can be disbursed. Thus, this issue should be the focus of further research on the Spanish microcredit system to determine the depth of outreach of microloans in the funding of projects of the poorest segments.

- Moreoever, although the savings banks' commitment to the microfinance sector has helped the excluded exercise their right to credit, the focus on financial feasibility over social criteria may mean that the most attractive, 'almost' bankable, individuals benefit most. The depth of outreach of programmes, that is, their ability to aid the most vulnerable, may remain limited as long as social criteria remain subordinate.

- In Spain, microcredits are also becoming a useful tool in creating employment – via self-employment – amongst many entrepreneurial immigrants. Over the last few years, microloans disbursed to immigrants have increased substantially. In the last decade, Spain has experienced a mass inflow of immigrants from developing countries who have left from their home countries in search of improved wages and working conditions. The arrival of working-age immigrants with a medium-low level of skills in a developed country like Spain, helps counteract the effects of an ageing population. As a result, immigrants drive up national and per capita GDP levels, as well as reduce the dependency ratio. This in turn alleviates pressures on the social security system (pensions, health care and social assistance). Furthermore, the benefits are not limited to the host country. Poverty likewise decreases in developing countries as a result of money remittances sent by immigrant workers. Microcredit represents an alternative financial tool for immigrant integration in Spain.

- Additionally, microcredits increase public funds by cutting unemployment-related costs, boosting Social Security contributions and reducing spending on social assistance for immigrants. The biggest challenge that lies ahead is the creation of a ‘solidarity network’ among the various organisations working to integrate immigrants into our society – financial institutions, SMSOs and public organisations – with the aim of ensuring that microcredit, as a tool to fight exclusion and poverty, is accessible to the most vulnerable immigrants.

APPENDIXES

Appendix I. Some examples of SMSOs according to client segment

Resulting from their experience with certain collectives, several SMSOs specialize in a specific client segment. For example, some SMSOs exclusively manage microcredit with vulnerable women, immigrants, the disabled, or entrepreneurs already running a business. In this annex, an in-depth analysis will be made of some of these specialized SMSOs. These examples, however, constitute a small sample of the wide spectrum of SMSOs involved in microcredit work.

1. Women's World Banking in Spain: Microcredits for women

Women's World Banking in Spain (Banco Mundial de la Mujer) is a non-profit foundation affiliated with the international Women's World Banking. Its main goal is to promote the full development of women, particularly in their professional lives.

Women's World Banking first began its activities in Spain in 1989, and since then, has been a pioneering organisation in providing access to credit through their innovative microcredit programmes geared towards achieving gender equality in the financial field.

In the past 27 years, this SMSO has processed more than 825 loans, enabling the creation of 2,750 companies and 5,010 jobs by and for women.

The main microcredit programmes (without collateral or guarantees) of Women's World Banking are the following:

Past programmes:

i) *Specific banking agreement with Caja Madrid.* Launched in 1989 to facilitate loans for women with business projects, this programme provided better terms and conditions than that of the market. Through this programme, loans without collateral or guarantees were processed and paid back without problems. However, excess bureaucracy hampered the agreement.

ii) *"la Caixa" guarantee fund.* This programme was developed in 2000 in partnership with "la Caixa" with the purpose of extending guarantees for immigrant women. The programme included guarantees of up to 6,000 euros, a repayment period of 3 years and an interest rate of Euribor +1.25%.

iii) *Caring credits*. This pilot programme was launched in the Castilla y León region during the period 1997-2000 for the granting of loans without guarantees to businesswomen.

Current programmes:

i) *Agreement with the Fundació Un Sol Mon* for self-employment projects[54].

ii) *Agreement with the ICO (Official Credit Institute)*. Within the framework of the ICO Microcredit Line 2003 and 2004, this programme aids women in the Community of Madrid (recently ended).

iii) *Agreement with the Instituto de la Mujer (Women's Institute) and "la Caixa"*. Women's World Banking is one of the five women's organisations associated with the Microcredit Programme for Entrepreneurial and Business Women[55].

Women's World Banking provides a long list of services and supplementary programmes in addition to its microcredit activity, amongst which the following are noteworthy:

i) Free assessment of business projects for women. Assessment on all issues related to developing a business.

ii) "Give women credit" programme. With the aim of changing negative perceptions financial institutions may have of women, banking negotiation manuals and seminars with bank representatives are provided.

iii) Technical assistance programme for self-employment through the Internet. Financed by the Ministry of Labor and Social Affairs (www.autoempleomujer.com), content on self-employment is provided, as well as an e-mail consultation service.

[54] Consisting of financing of collectives with no access to the banking sector. Loans are granted without guarantees, collateral, or fees for a maximum amount of 15,000 euros at a fixed interest rate of 6% and a repayment period of 3-4 years without any grace period.

[55] The basic aim of the programme is to support women in their business projects, enabling them to access financing of up to 15,000 euros (95% of the project) with no guarantees or collateral, over a period 5 years at a fixed annual interest rate of 5%, low fees, and a grace period of up to 6 months.

iv) Guidance on Active Employment Policies for unemployed women, registered at employment offices in the regional government of Madrid. Financed by the Labour Directorate of Madrid.

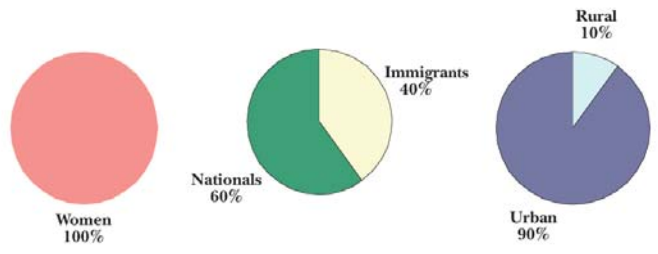
v) Business training through workshops financed by the Directorate for Women of Madrid.

vi) Training in new technologies and Internet through practical seminars.

vii) Go Digital Go project: free online training programmes on Internet for craftswomen and entrepreneurs in the tourism sector.

viii) Virtual Trade Fair for Entrepreneurial Women: alternative tool to conventional fairs for company promotion.

ix) Business House for Women in the Region of Asturias. Asturian craftswomen and entrepreneurs are provided with training, business contacts and support for their market launch.

Summary of microcredit activities of Women's World Banking (2005)	
Microcredit Activity	Number of microloans disbursed in partnership with financial institutions: 126. Amount: 1,518,000 euros. Repayment period: 3-5 years. Interest rate: 5-6%. Grace period: 0-6 months.
Breakdown by client type	

Source: Authors; Survey (2005); Survey (2006).

2. *MITA-NGO and Spanish Red Cross: Microcredit for immigrants*

2.1. MITA

Since June 1997, the MITA Centre for the Development of Business Initiatives ("MITA") has helped immigrants participate in the Spanish economy, supporting them in the creation of their companies and facilitating their social and labour integration. Over the last decade, MITA has contributed to the creation of more than 320 microenterprises.

Within the framework of the ICO Microcredit Line 2004, MITA has agreements with the microcredit programmes of "la Caixa", Caixa Galicia, Caja España and Banco Popular.

In addition to its microcredit activities, MITA provides immigrants with complementary assessment, training and management support services. Likewise, it offers companies the chance to collaborate with immigrant microenterprises. These supplementary services are grouped within the following programmes:

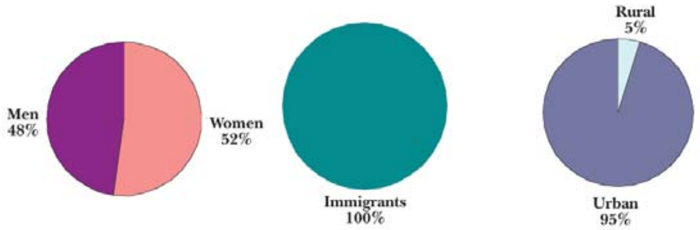
i) Promotion, creation and development of companies amongst immigrants and women:
   - Assessment of brainstormed business ideas and aid in business plan development.
   - Group and individual tutorials to reinforce business skills.
   - Search for financing for feasible business plans.
   - Company follow-up and support services in order to boost competitiveness.
   - Exchange of services through workshops and the support of networks.

ii) "Foster a Company" programme. Participation and collaboration with Spanish entrepreneurial sector in the creation and consolidation of microenterprise projects through:
   - Participating as a financial partner in a business project.
   - Disbursing microcredits.
   - Subcontracting services of companies run by immigrants or Spanish women.

iii) Training:

- Short courses on business plan development, introduction to marketing, accounting, fiscal obligations, business and financial management.

iv) Consultancy to support project management and reinforce follow-up and control actions.

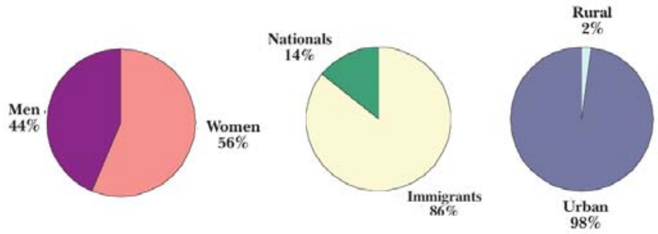
<table>
<tr><th colspan="2">Summary of microcredit activities of MITA (2005)</th></tr>
<tr><td>Microcredit Activity</td><td>Number of microloans disbursed in partnership with financial institutions: 387.
Amount: 6,445,000 euros.
Repayment period: 4 years.
Interest rate: 5.5%.
Grace period: 0-6 months.</td></tr>
<tr><td>Breakdown by client type</td><td>
</td></tr>
</table>

Source: Authors; Survey (2005); Survey (2006).

2.2. Spanish Red Cross

The Spanish Red Cross is an SMSO that manages microcredits geared specifically towards immigrants. Having provided 78 microloans since 2002, the Red Cross's microcredit activity is carried out through its branches in the various regions in collaboration with the Fundació Un Sol Món.

Microcredit represents one facet of many employment services offered. In order to ensure that microcredit effectively produces employment and socioeconomic integration, the Spanish Red Cross exclusively channels microcredit to marginalized people with entrepreneurial spirit.

Summary of microcredit activities of the Spanish Red Cross (2005)	
Microcredit Activity	Number of microloans disbursed in partnership with financial institutions: 56. Amount: 480,199 euros. Repayment period: 18-60 months. Interest rate: 6%. Grace period: 0-1 months.
Breakdown by client type	

Source: Authors; Survey (2005); Survey (2006).

3. Fundación INCYDE and SECOT: Microcredits for entrepreneurs

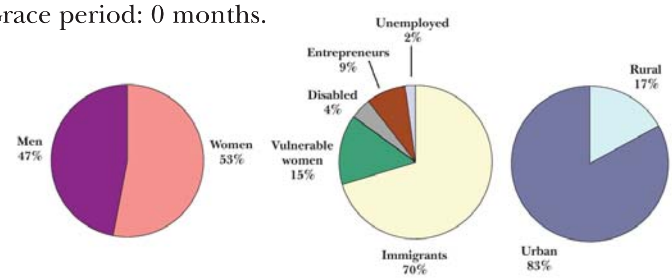
3.1. Fundación INCYDE

The Instituto Cameral de Creación y Desarrollo de la Empresa ("INCYDE") arose from an initiative by the Spanish Chambers of Commerce to foster the entrepreneurial profession and creation of companies.

INCYDE was an SMSO associated with the ICO Microcredit Line, through which it has processed 47 microloans. Currently, INCYDE provides the following programmes, which encompass significant training resources:

- Support of entrepreneurs and business start-up.
- Support of self-employed business people.
- Support of businesswomen.
- Support of the disabled.
- Creation of companies for returned Spanish emigrants.
- Support of university students' companies.
- Business incubators.
- Strategic sector plans.
- Company consolidation programmes.

In addition, INCYDE provides individual tutorials and consultancy through one hundred consultants constantly on the move throughout the country, fosters the use of new technologies and the Internet, and integrates all its services and programmes with the Spanish Chambers of Commerce network.

Summary of microcredit activities of INCYDE (2004)	
Microcredit Activity	Number of microloans disbursed in partnership with financial institutions: 47. Amount: 951,298 euros. Repayment period: 48 months Interest rate: 5.5%. Grace period: 0 months.
Breakdown by client type	

Source: Authors; Survey (2005).

3.2. SECOT

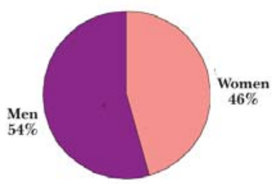
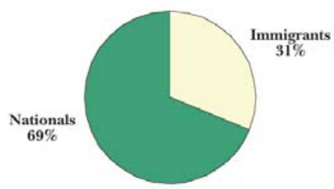
Seniors Españoles para la Cooperación Técnica ("SECOT") is a non-profit association comprised of more than 800 qualified professionals who are retired or are still working. As volunteers, these professionals share their experience and knowledge in business management. Through its 20 branches across Spain, the seniors provide technical and management assistance to small and medium enterprises, young entrepreneurs and non-profit associations, as well as to marginalized collectives. SECOT thus contributes to the development and growth of companies and job creation.

Having processed approximately 400 microloans since 2002, SECOT is associated with the ICO Microcredit Line[56], and also with programmes affiliated with the Fundación Un Sol Món, Caixa Galicia and Caja Granada.

[56] The ICO Foundation acknowledged SECOT as the SMSO that most actively participated in the ICO Microcredit Line 2003, since 311 of the 805 microcredits processed by ICO were formalised through this organisation.

SECOT's offers microentrepreneurs the following services:

- Individual tutorials.
- Case analysis.
- Assembly of a multidisciplinary team of Expert Seniors.
- Research, analysis and evaluation.
- Issuance of a Final Report with a list of recommended actions.

Summary of microcredit activities of SECOT (2005)	
Microcredit Activity	Number of microloans disbursed in partnership with financial institutions: 482. Amount: 9,162,202 euros.
Breakdown by client type	 

Source: Authors; Survey (2005); Survey (2006).

4. Fundación ONCE: Business loans for the disabled

The Fundación ONCE para la Cooperación e Integración Social de Personas con Discapacidad ("Fundación ONCE"), was founded in 1988 as an instrument of cooperation and assistance by blind Spanish people towards other disabled collectives in order to improve their living conditions.

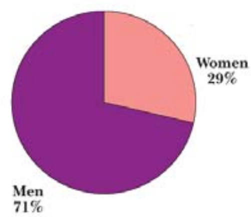
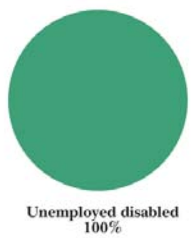
The main objectives of the Fundación ONCE fall in two main areas:

i) Universal accessibility:
   - Access to the physical environment: urban and architectural accessibility, transport, etc.
   - Promotion of the socioeconomic integration of people with sensory disabilities.
   - Promotion of awareness on mental and psychosocial barriers.
   - Access to new technologies.
   - Access to culture and leisure activities.

ii) Employment and training: Since the organisation believes that the best way of achieving the social integration of disabled people is through workforce participation, job creation for disabled people is the top priority of the Fundación ONCE.

Although the Fundación ONCE is not associated with the microcredit programmes promoted by financial institutions and the Public Administration, this organisation has fostered self-employment amongst disabled entrepreneurs since 2000 through its **Integral Plan of Support and Self-Employment Initiatives**[57].

Acting as both a SMSO and a financial institution, the Fundación ONCE not only provides assessment, training, technical support and follow-up for the disabled, but also contributes the financial resources themselves. The difference between this programme and the more common microcredit programme is that financial assistance is in the form of a subsidy, i.e. there is no obligation for the beneficiary to repay the capital. Nevertheless, like all other microcredit programmes, the Plan is founded upon the firm conviction that the disabled can develop business initiatives and reduce unemployment levels if they receive the necessary trust, technical support and resources.

Summary of microcredit activities of Fundación ONCE (2004)	
Microcredit Activity	Number of microcompanies started up: 202. Amount granted: 2,106,109 euros.
Breakdown by client type	 

Source: Authors; Survey (2005).

[57] For more details, please see Rico, Lacalle, Durán and Ballesteros (2004).

This brief review of the activities of different SMSOs illustrates that in addition to being organisations with experience in the socio-labour integration of segments at risk of social and financial exclusion, SMSOs offer microcredit clients an array of supplementary services, such as personalised tutorials, training courses, business support, access to new technologies, etc.

Through these additional services, SMSOs increase the feasibility and financial sustainability of microenterprises, thus benefiting both the microcredit client and the financial institution. Once again, it should be noted that SMSOs provide these services at no cost to the microentrepreneurs and the financial institution. Hence, Foro Nantik Lum de MicroFinanzas recommends that the microfinance community adopts the appropriate accounting and budget allocation methods to reflect the cost of SMSO services in interest rates or in the allocation of financial institutions or Public Administration support funds. Only then, can real sustainability and growth of microcredit be achieved in Spain.

Appendix II. Survey (2005)

SURVEY OF FINANCIAL INSTITUTIONS AND SMSOs ABOUT MICROCREDIT DISBURSEMENT ACTIVITIES IN SPAIN

Please fill in the marked fields. Depending on the type of institution, fill in the marked fields in accordance to the color code below.

	Required field for both SMSO and financial institutions
	Required field for financial institutions

Once you have completed the survey, we would appreciate it if you can send it to the Nantik Lum Foro de Microfinanzas by one of the following means (preferably by e-mail)

Email: mauricio@nantiklum.org

Fax: 91 411 46 59

Postal address: Nantik Lum, calle Velázquez 109, 6D, 28006 Madrid

1. GENERAL INFORMATION OF THE INSTITUTION	
1.1 Name of the Institution	
1.2 Contact Person	
1.3 Telephone	
1.4 Email	
1.5 Address	

2. GENERAL INFORMATION OF MICROCREDIT ACTIVITIES			
2.1 Type of institution *(mark with an X) :*			
- Financial			
- Social			
2.2 Date of first microcredit activity			
2.3 Number of microcredit loans granted			
- Total number of loans			
- Volume in euros			
- Indicate date pertaining to data above			
2.4 Amortization period			
2.5 Interest rate			
2.6 Grace period			
2.7 Of all microcredit loans granted, what is the loan recovery rate (percentage)?			
- Of total microcredit loans granted			
- Of total microcredit loans granted to women			
- Of total microcredit loans granted to men			
2.8 Number of microcredit loans broken down into beneficiary type			
2.8.1 By sex			
- Women			
- Men			
2.8.2 By vulnerable groups			
- Immigrants			
- Women			
- Disabled			
- Entrepreneurs			
- Unemployed			
- Single-parent households			
- Ethnic minorities			
- Others (specify)			
2.8.2 By zone			
- Rural			
- Urban			
2.9 Microcredit loans broken down by activity type	Volume level of projects		
(Indicate with an X)	Few	Some	Many
- Restaurants			
- Convenience store			
- Craftwork			
- Education			
- Recreational, sport, touristic, cultural activities			
- Cleaning services			
- Restoration workshops and/or related work			
- Pet shops			
- Aesthetics or health			
- Construction services: plumbing, electricity			
- Shoe repair workshop			
- Domestic services			
- Eldercare			
- Childcare			
- Other (specify)			

3. INFORMATION ABOUT SMSO NETWORK USE BY FINANCIAL INSTITUTIONS			
	Public Organisations*	Private Organisations**	Total
3.1 Number of official collaborative agreements			0
3.2 Total number of microcredit loans by institution type			0
3.3 Of all microcredit loans granted, what is the loan recovery rate? (percentage)			
3.4 Analysis of the 5 most active public organisations	Name	Number of loans	Loan recovery rate
1st			
2nd			
3rd			
4th			
5th			
3.5 Analysis of the 5 most active private organisations	Name	Number of loans	Loan recovery rate
1st			
2nd			
3rd			
4th			
5th			
3.6 Selection criteria of social institutions	Criteria Importance		
(Indicate with an X)	Low	Medium	High
- Experience in assisting integration into the labor market			
- Contact with vulnerable or excluded groups			
- Internal training and business management capacity			
- Others (specify)			

** Town/city council, delegations, and other public organisations etc.*

*** NGOs and other private social entities*

4. MICROCREDIT LOAN APPROVAL CRITERIA USED BY FINANCIAL INSTITUTIONS AND SMSOs			
4.1 Selection criteria for financed projects	Criteria Importance		
(Indicate with an X)	Low	Medium	High
- Project viability			
- State of exclusion of beneficiary			
- Employment generation possibilities of the project			
- Confidence in social organisation that presents the project			
- Other (specify)			
4.2 Indicators of beneficiary vulnerability	Level of utilization / relevance of indicator		
(Indicate with an X)	Low	Medium	High
Economic indicators			
- Income level			
- Alternative sources of income in family			
- Savings level			
- Family size			
- Number of dependents			
- Size of living quarters, number of rooms			
- Recipient on subsidies			
- Others (specify)			
Education and work indicators			
- Education level			
- Technical skill level			
- Previous occupation			
- If pertinent, months/years of unemployment			
- Job security level of current work			
- Others (specify)			
Health indicators			
- Chronic diseases in the family or person			
- Personal crises, emotional problems, or failures			
- Drug or alcohol addiction			
- Others (specify)			
Social stability indicators			
- Family stability			
- Relations with neighbors			
- Social ties			
- Others (specify)			
Business aptitude indicators			
- Entrepreneurial spirit			
- Previous business experience			
- Level of business education			
- Others (specify)			
Other indicators			
- Others (specify)			

** Attempts to analyze if the financial or social entity utilises these indicators and to what extent*

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www.pangea.org/accio

Agencia de Desarrollo Local Ayuntamiento de Alcoy
www.ajualcoi.org

Ayuntamiento Collado Villalba
www.ayto-colladovillalba.org

Ayuntamiento de Santa Lucía de Tirajana
www. santaluciagc.com

Banco Mundial de la Mujer en España
www.bancomujer.org

Banco Popular
www.bancopopular.es

BBK Solidarioa Fundazioa
www.bbk.es

Grupo Santander
www.gruposantander.com

Caja de Ahorros de La Inmaculada de Aragon
www.cai.es

Caja de Ahorros de La Rioja
www.cajarioja.es

Caja Duero
www.cajaduero.es

Cámara de Comercio del Perú
www.ccipc.org

Cámara de Comercio de Girona
www.cambragirona.org

CEAMI
www.codespa.org

CGAP
www.cgap.org

Colonya-Caixa de Pollença
www.colonya.es

Comunidad de Madrid
www.madrid.org

Consorci de Promocio Económica de Lleida
www.paeria.es/consorci

Cruz Roja Española
www.cruzroja.es

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www.deutsche-bank.es

Economistas Sin Fronteras
www.ecosfron.org

EMFO Mollèt del Vallès
www.emfo.com

European Microfinance Network
www.micro-credit.net

FIDEM
www.fidem.net

Foro Nantik Lum de MicroFinanzas
www.nantiklum.org/foro.htm

Fundación Caja Granada Desarrollo Solidario
www.cajagranada.es

Fundación INCYDE
www.incyde.org

Fundación Mujeres
www.fundacionmujeres.es

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www.fundaciononce.es

Fundación Un Sol Món
www.unsolmon.org

GENUS
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Ibercaja
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IEPALA
www.iepala.es

Instituto de Crédito Oficial
www.ico.es

Interarts
www.interarts.net

Microcredit Summit
www.microcreditsummit.org

MITA-ONG
www.mitaong.org

Obra Social Caixa Galicia
www.obrasocialcaixagalicia.org

Obra Social "la Caixa"
www.lacaixa.es

Omega
www.mujeresempresarias.org

Promocio Económica de Sabadell
www.sabadellempresa.com/suportempresarial

SECOT
www.secot.org

Transformando Sociedad Cooperativa
www.transformando.org

Trinijove
www.trinijove.org

Universidad Pontificia Comillas
www.upco.es

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MICROCREDIT IN SPAIN

The Foro Nantik Lum de MicroFinanzas is a forum designed for the debate and permanent study of microcredit, the first of its kind in Spain. It was founded in 2003 by the Fundación Nantik Lum, working in collaboration with the Universidad Pontificia Comillas Madrid and the Spanish Red Cross, in order to promote serious research in the field of microfinance within an academic and social work-related context.

The Foro's chief aims include:

- Creating a permanent place for the study of microfinance in which universities, NGOs, financial institutions, government and greater society may participate.
- Encouraging the exchange of experience and knowledge on microfinance programmes with a common goal in mind: to reduce poverty around the world.
- Making society more aware of the causes behind social exclusion and poverty, fostering microfinance and micro-business initiatives, socially responsible banking, social investment and other financial alternatives as instruments that can be used to tackle these problems.

To achieve these aims, the Foro has undertaken a series of activities including workshops with experts, conferences, impact evaluations of microcredit programmes on the standard of living of loan recipients, as well as the publication of various documents, most noteworthy, the collection of Research Monographs. So far, the Foro has published seven Monographs which have been well received by both academics and microfinance practitioners in financial and social institutions.

In light of this positive reception, a while ago the Foro members considered the possibility of spreading their knowledge about the Spanish microcredit model, so that other practitioners and institutions in Europe could learn from the successes and failures of this method, and compare models. And therein lies the purpose of this book.

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