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An analysis of the role and impact of the public sector in the development and institutionalization of Microfinance in Spain

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Abstract

The paper studies public policies implemented in Spain to facilitate or promote self-employment business initiatives that can be directly or indirectly related to the Microfinance sector. Policies at local, regional and countrywide levels are be considered, taking into account both the provision of financial services and other relevant services. A relevant part of the study is be devoted to the configuration and results obtained by the Spanish-wide microcredit program established in 2002 by the Official Spanish Credit Institute (ICO). It will include its relationships with both private banks and social organizations seeking to support the underprivileged. Moreover, counseling services provided by local public entities regarding the engagement of new economic activities, as well and its relationship with the Microfinance sector are also studied.

The study suggests that public authorities make a clear distinction on the kind of services offered. Although the three main levels of public administration (local, regional and nationwide) are engaged in its development, each one of them takes a different complementary perspective. Financial services are scarce, raising a lot of interest following its introduction, but with decreasing levels of realizations in recent years. Microfinance owns nevertheless a lot to the public microcredit program in terms of recognition, promotion and implementation of microcredit programs in Spain. Non-financial services are more widespread, being used also by other would-be entrepreneurs. Information and assessment by public local entities seems to be especially useful to would-be entrepreneurs, even though public accompaniment is limited to the very early stages of the entrepreneurship process.

Keywords: Microfinance Sector; Public policies; Spain

Introduction

Nowadays there is a strong consensus among specialists that entrepreneurship is the most significant factor in the generation of wealth in any society. As Drayton (2004) has dramatically put it; 'from the fall of Rome (ca. 476) to the eighteenth century, there was virtually no increase in *per capita* wealth generation in the west. With the advent of entrepreneurship, however, per capita wealth generation and income in the west grew exponentially by 20 percent in the 1700s, 200 percent in the 1800s, and 740 percent in the 1900s'. In this sense, societies with considerable "entrepreneurial strength" are supposed to be in a better position to confront (new) social and economic difficulties. Strong interest in the field has been driven by the recognition of the fact that entrepreneurial ventures are key drivers of economic growth in market systems (Wennekers and Thurik 1999; Audretsch and Keilbach 2004; van Steel *et al.* 2005; Murphy *et al.* 2006).

Microfinance and self-employment

Microfinance Institutions (MFI) have succeeded in providing credit services to people without collateral by using a variety of alternative forms of 'social capital' (Anderson and Locker 2002). The set of alternative mechanisms used within the microcredit system (group-lending, dynamic incentives such as progressive-lending, etc.) has to be considered from a double perspective. While they are designed to ensure loan repayment, social mechanisms also have non-financial side-effects. For example, group-lending meetings involve peer advising on business activities and decision making, since the success of each individual business is in the interest of the whole group. Therefore it can be considered as a sort of mixed strategy combining a training program with personal assessment and business guidance.