



# **MICROCREDITS IN EUROPE AND CENTRAL AMERICA: A CASE STUDY**

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Resumen:

The aim of this paper is to analyse the differences between microcredits granted in developed and developing countries, by carrying out a case study. Spain and France are chosen as examples of developed countries and Guatemala and Honduras as developing countries. The macroeconomic differences between countries and the different regulatory frameworks for microcredits will be analysed in order to find out how legislation can favour the development of microcredits. In order to study the degree of integration of microcredits, data from one of the most representative microfinance institutions in each of the countries will be analysed. The methodology used in the work has an inductive approach with qualitative and quantitative data collection to develop general theories on the effectiveness of microcredits.

Palabras clave:

Central America, Europe, Microcredit, Women, Poverty.

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# 1.- INTRODUCTION

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Microcredits have proven to be beneficial to society as an effective tool for income distribution, favouring social and economic development, reducing poverty and financial and social exclusion (**De la Cuesta et al, 2006**).

They are a response to the lack of access to credit for millions of people excluded from formal financial systems in many countries around the world. They allow people without access to credit to obtain financing and take advantage of the economic opportunities available to them. They facilitate the start-up of a small business or consolidating an existing one that needs a little boost, always leaving aside other methods of financing that could be close to usury, which were the only solution available to people excluded from traditional financing before this kind of credit came into action.

Microcredits are granted on the basis of trust in the potential of the person who receives it and not by virtue of possessions, property, collateral or equity guarantees. The granting is based on the confidence that the person to whom the money has been lent will pay it back, either because his or her business project is in itself an economic guarantee, or because there is a joint guarantee (when the microcredit is granted to a solidarity group) but, above all, because the person offers a guarantee of repayment: his or her dignity is his or her best guarantee.

However, the functioning and impact of this financing instrument is not the same, both for the bank or microfinance institution that grants the loan and for the person who receives it, if we are in a developed or undeveloped country, or if we are in a country with or without regulations that favour microcredits.

Therefore, the aim of this research is to analyse how regulation can favour or hinder the development of financial instruments and social and labour inclusion instruments such as microcredits, which enable financial inclusion, both in developed and undeveloped countries. The aim is to be able to establish a series of recommendations that help decision-makers and stakeholders to universalise basic financial services, bringing them closer to those people and groups that are financially and socially excluded.

In order to meet the objective of the study, a case study will be carried out to analyse the differences between developing and developed countries. Specifically, microcredit in Spain, France, Guatemala and Honduras will be analysed. These regions have been selected as the object of the study, taking Spain and France as representatives of developed countries close to us and Guatemala and Honduras as developing countries

and examples of poverty in Latin America, as they have one of the lowest GDPs in the region.

The results of this work advance the existing literature on the subject, highlighting the importance of microcredit in all countries, but mainly in developing countries, and the differences between the users of microcredit in developed and developing countries.

This research is structured in five sections. After this introduction, the theoretical framework is presented, explaining what "poverty" is considered, the concept of financial exclusion, what the financial system and microfinance consist of and what microcredits are. In the third section, the methodology used for the development of the work will be detailed, explaining the study method, the sample and the variables that were the object of the study. The results of the case study will be explained in the fourth section, which will be divided into two sub-sections: Europe and Central America, which in turn will be divided into other sub-sections: Spain and France in the case of Europe, and Guatemala and Honduras in the case of Central America. Finally, the fifth section sets out the conclusions of the study.

## 2.- THEORETICAL FRAMEWORK

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### 2.1.- POVERTY

According to the **United Nations (UN, 2015)**, a person is considered to be in extreme poverty when they live on less than 1.90 dollars (USD) per day. But beyond the numerical consideration, **Economic Commission for Latin America and the Caribbean (ECLAC, 2010)** defines "*extreme poverty*" as "*the situation in which there are no resources available to meet basic food needs*". And it specifies that people living in households that do not have sufficient resources to be able to obtain a "*basic food basket*" even if they use all their resources for this purpose are considered to be extremely poor. At the same time it considers as "*total poverty*" the situation of households where income is less than the value of a "*basic basket of goods and services*", both food and non-food.

The World Bank estimated in 1993 that the number of people in the world who could be considered "*extremely poor*" was about 36% of the world's population. The same World Bank (**Demirgüç-Kunt et al., 2017**), in more recent data, indicated that, although the world population had increased by 41% from 1993 to 2017, from 5300 million to 7500

million, the number of people considered to be "*extremely poor*" had fallen to less than 10% of that population. But it should be noted that this 9.2% is equivalent to 689 million people who have less than \$1.9 a day to subsist on.

However, global extreme poverty has increased for the first time in more than 20 years in 2020 as a result of the disruptions caused by the COVID-19 (Coronavirus) pandemic, compounded by the forces of conflict and climate change, which are already slowing progress in poverty reduction. An estimated 100 million people will be pushed into extreme poverty as a result of the pandemic. Furthermore, the effects of the current crisis will be felt in most countries until 2030. The goal of reducing the absolute global poverty rate to less than 3% by 2030, committed to before the crisis, is now totally unattainable without rapid, substantial and meaningful policy action (**The World Bank, 2021**).

## **2.2.- FINANCIAL EXCLUSION**

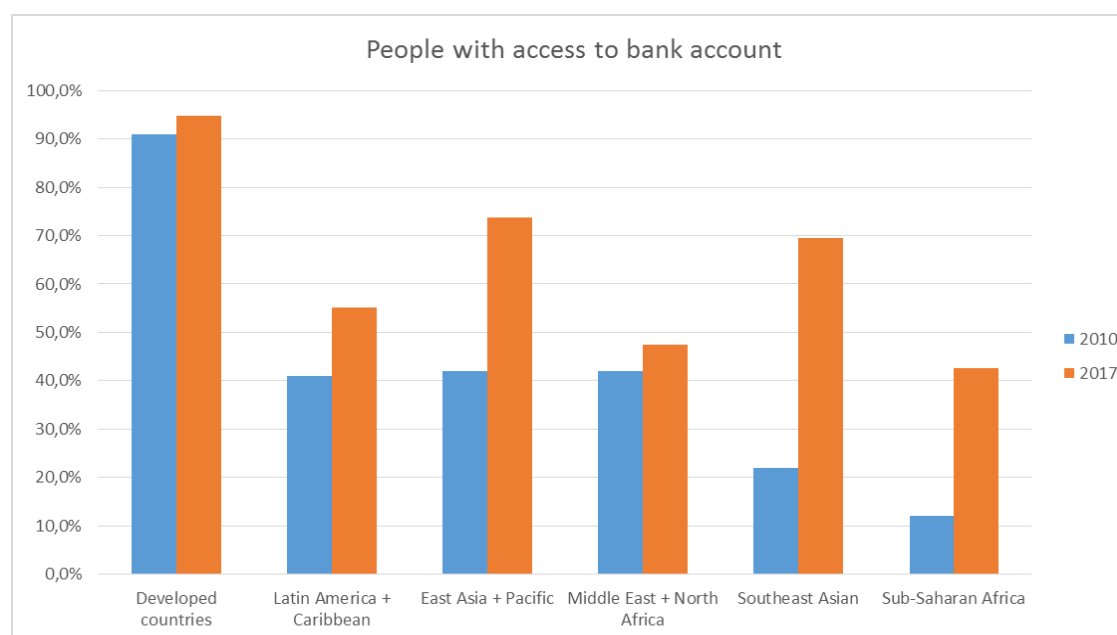
According to **Sinclair (2001)** in his book *Financial Exclusion: An Introductory Survey: "Financial exclusion implies the inability to access necessary financial services in an appropriate form. Financial exclusion can occur as a result of problems of access, conditions, pricing, marketing or self-exclusion in response to negative experiences or perceptions"*.

The number of financially excluded people varies greatly from country to country, and it is often impossible to know the number of people who are financially excluded. One indicator is the access to a bank account (Figure 1). According to data from **The World Bank (2010)** published in the study "*Financial Access 2010*", around 91% of people over 15 years of age in developed countries had a deposit in a financial institution. In Latin America and the Caribbean the percentage was 41%, in East Asia and the Pacific 42%, in the Middle East and North Africa 42%, in Southeast Asia 22% and in Sub-Saharan Africa 12%. In **The World Bank report (2017)** the percentages had changed as follows: Developed countries 94.7%, Latin America and Caribbean 55.1%, East Asia and Pacific 73.7%, Middle East and North Africa 47.5%, Southeast Asia 69.5% and Sub-Saharan Africa 42.6%. There is a significant difference in some regions and the report attributes this to the new possibilities of accessing bank accounts via mobile phones.

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Figure 1. People with access to bank account

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*Own elaboration from The World Bank data: Financial Access 2010 and The Global Findex Database 2017.*

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There are four types of financial services that are considered basic among the many services that financial institutions offer to their customers: bank accounts, loans or credit, transactions and insurance.

Bank accounts are a very basic banking product. In fact, in developed countries, most of the population has a bank account that allows them to keep their savings safe and at certain times to earn a return on them. In less developed countries, if they cannot have an account, the savings are hidden or given to a local merchant for safekeeping, so the risk of losing them is very high and prevents them from being able to operate with cheques, cards, etc.

Loans or credit is a basic product that we need to access at some point in our lives in order to be able to acquire a good that is beyond our income capacity and that we can pay back little by little. People who cannot access this product because financial institutions do not want to provide the service, due to the high risk of non-payment, have to turn to relatives, business friends or moneylenders. The possibility of obtaining the loan is significantly reduced and, if it is obtained, it is often with very unfavourable conditions for the user.

Transaction banking is another banking service based on security, speed, low cost and convenience. If you cannot access this service, you will be forced to carry out your transactions in cash, with the risk and loss of time that this entails.

Finally, insurance is a system that provides protection against disasters, whether weather-related or everyday risks. In some countries, they are compulsory for certain activities such as driving.

Apart from poverty, there are other factors that play an important role in financial exclusion such as: lack of basic education, not having an identity card, living in poor countries, being a woman, being old or too young, having had a bad experience with a bank branch and being immersed in a regional or global economic crisis.

But why is financial inclusion so important?

Financial inclusion, according to different studies, has a positive relationship with economic growth, poverty reduction and equity. Inclusion means having access to financial products and services, which allows access to, among others, means of payments, credit and savings.

If millions of poor people could have access to financial resources on appropriate and reasonable terms, they could start small businesses to generate income and improve their living conditions (**Lacalle, 2008**). In this way, they would be able to build the greatest miracle around the world: eradicating poverty from the planet. The dream of Muhammad Yunus, founder of the Grameen Bank, has been that one day *poverty will only exist in museums* (**Yunus, 2019**).

Financial inclusion is a factor that, according to The World Bank, is conducive to achieving seven of the seventeen Sustainable Development Goals (SDGs).

## **2.3.- THE FINANCIAL SYSTEM AND MICROFINANCE**

A financial system is a set of institutions, means and markets that cause savings to flow into investment, i.e. savings to flow from surplus economies to deficit ones. Several basic elements can be found in financial systems:

- Financial assets. These are securities that deficit economies produce to transfer funds and risks.
- Financial institutions. These are the entities that mediate or intermediate between surplus economies and deficit ones. Their main function is to lower the



costs of raising finance and to assist in the transformation of assets into other assets.

- Financial markets. These are the places or mechanisms that enable exchanges to take place between different agents. Their function is to bring economic agents into contact with each other, help to set prices, reduce costs and timeframes.

Within financial institutions, among others, we can distinguish between traditional banking and microfinance institutions (MFIs). Banks are long-established financial institutions (they were born in the Middle Ages in Florentine Italy) and governments have been regulating their activities and characteristics over time. These "traditional" institutions have always been in the business of collecting money from individuals and entities that potentially have a large amount of capital, with the consequent payment of interest, in order to lend it to individuals and entities that need it, while charging them interest for the service. Banks make a profit on the difference in interest between the interest they charge borrowers and the interest they pay to depositors.

However, in some countries, we find that markets are poorly developed with few specialised institutions and instruments. In other countries, with highly developed markets and institutions, their financial systems are not capable of boosting economic growth. It is in this context that microfinance plays a particularly relevant role.

Microfinance is a specific type of impact investment that brings credit investment closer to sectors, companies and people who are financially excluded from credit and in a situation of poverty. They enable greater financial penetration through local institutions that are close to the needs of the population.

Among these institutions, microfinance institutions are those dedicated to the provision of microfinance services to the most disadvantaged people. The main characteristics of these institutions are: focus on the poor, knowledge of the market they serve, risk assessment through personal contact, unbureaucratized structure to reduce costs, financial self-sufficiency (they seek to cover operating costs plus the financial costs of capital with income and the importance of savings). The objective of these institutions is to combine the need to be operationally and financially self-sufficient with the continuity of these initiatives in pursuit of financial inclusion and poverty eradication.

The growth and development of a country's financial systems has been shown to create economic growth. The controversy is whether this economic growth increases or decreases inequalities between rich and poor populations of that country.

Some work suggests that wealthy and high-class people benefit the most from the development of financial systems, especially when these institutions are weak. This theory suggests that people with more income and more properties would get most of the financing because they would have more resources to repay the loans granted. Financial systems would always serve the higher classes first and this would increase inequalities (**Torre et al., 2012**).

However, other research suggests that, as a region's financial system develops and there is an increase in opportunities, those who could not access certain financial services can reap the benefits of these services and that such development would therefore help to reduce inequalities (**Torre et al., 2012**).

And of course, there is also an intermediate approach that says that in the first phase of economic growth and development of the financial system, the higher income population would benefit, but once the system is sufficiently developed, more people could come to it and benefit from finance, which would be equivalent to reducing inequalities (**Torre et al., 2012**). **De la Cuesta et al. (2006)**, following the evidence of **Groos (2002:1)**<sup>1</sup>, point out that the empirical findings show a positive contribution of the microfinance sector to economic growth, either on the savings or investment side.

## **2.4.- MICROCREDITS**

A large part of the world's population lacks a decisive factor for the generation of wealth, namely financing. In order to provide financing for a large part of this economy, microfinance includes microcredits. These are small loans without any type of guarantee that are granted to a person or group of people with very low resources so that they can start a business or a project that will allow them to generate income. This will help them to support themselves and their families and improve their quality of life.

They also serve as a credit history, because if you make your payments on time and your business grows regularly, you will be able to access larger loans or even loans from formal banks. The characteristics that make them different from formal credits are mainly that microcredits are usually given with very little documentation and without collateral, that they are of small amounts and to finance small projects, so they are easily accessible to poor people without any property.

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<sup>1</sup> Cit. en Gutiérrez, B. (2003: 89).

There are three main modalities or types of microcredit:

- **Individual.** It is granted to a single person who is the guarantor of the credit and is responsible for the payment of interest and principal. Some institutions ask for a guarantee of salary, property or the signature of another guarantor.
- **Solidarity Group.** This is granted to groups of people, between 3 and 8 individuals, who assume the debt jointly and severally and if any member is unable to pay, the other members of the group assume the responsibility. They are usually annual loans with weekly or fortnightly payments.
- **Communal banks or credit unions.** It is made up of larger groups, between 30 and 50 members, who guarantee each other. They are Cooperative-like associations presided over by the same community that join together in order to provide access to financial services and credit to their members.

Microcredits were born in the 1960s, as Muhammad Yunus, of Indian origin, finished his studies in Economics in the United States and returned to Bangladesh to teach at the local university. As he saw the degradation that existed in rural areas, he decided to study the causes on the ground in small villages. He concluded that the main problem was the impossibility for these people to access credit under acceptable conditions, so they had to be in the hands of unscrupulous traders and loan sharks.

In 1976, he formed the Grameen Bank to provide small loans at little or no interest and without the need for collateral or guarantors to groups excluded from traditional financing in Bangladesh, mainly women. To this end, he organised groups of 4 or 5 members who were jointly and severally liable for the repayment of the loans of each and every one of the group's members. With his initiative he achieved several important goals:

1. Credit reached the poorest people.
2. People were not in the hands of moneylenders.
3. Self-employment opportunities were created for a significant proportion of the existing unemployed people in rural Bangladesh.
4. Women got funding through a simple organisational format so they were capable of self-manage..
5. Everyone knew that there is no vicious circle of poverty.

Since then, microcredits have become a global icon of development cooperation. So much so that in 2005 former Secretary General of the UN, Kofi Annan, referred to them as a fundamental tool in the fight against poverty around the world. A year later, the

bank and its founder, Muhammad Yunus, were awarded the Nobel Peace Prize "for their efforts to create economic and social development from below".

However, some critics argue that the provision of microcredit alone can be counterproductive and can end up increasing the exploitation of women, increasing income inequalities, creating debt-dependent relationships and hindering sustainable development (**Bateman and Chang, 2009**). Despite the critics, many studies show that microcredits have improved the lives of millions of people, especially women, in all parts of the world and have contributed greatly to boosting economic growth in disadvantaged sectors, both in developing and developed countries (**Simanowitz and Walter, 2002**).

Following in the footsteps of Muhammad Yunus and in view of his successes, in recent years countless entities have been created, most of them not-for-profit, but also in conjunction with consolidated financial institutions, whose objective is to fight against poverty in the world. In fact, several World Microcredit Summits have already been held in an attempt to give visibility to the problem and to set guidelines and goals for future developments.

These programmes originated in Southern countries and are an example of technology transfer from South to North, where they began to be used at the end of the 20th century as a complement to public welfare systems. However, programmes in industrialised countries differ in some ways from those in developing countries. The main differences are:

- In developed countries, microcredit is not an effective mechanism for fighting extreme poverty, as it is in underdeveloped countries, since it is more often used to combat economic precariousness.
- In developed countries, start-ups have greater survival difficulties than in underdeveloped countries and this explains the higher default rate in developed countries during the first years.
- In developed countries, gender is not given much importance when granting a microcredit (although the data indicate that more women benefit from them). This is due to the fact that the situation of women in these countries is more favourable and there is a lower level of gender inequality.
- In developed countries, one of the main groups of individuals benefiting from microcredits are immigrants, apart from the long-term unemployed, vulnerable women, disabled people, etc., as they meet all the requirements for it. On the

other hand, in developing countries it is basically and even exclusively the locals who are the beneficiaries (in Honduras this is one of the requirements).

- In developing countries, lenders are specialised entities that rely on donor funds, savers and financial markets, while in developed countries they are of a varied nature (commercial banks, NGOs, development banks, etc.).

According to the latest available global figures for the year 2020 (**Thunstrom 2021**) at present:

- There are more than 10,000 microfinance institutions.
- They serve more than 140 million borrowers and have a loan portfolio of more than \$120 billion.
- Historically, microfinance has had a 98% repayment rate, although since the COVID-19 pandemic this has dropped to 90% in some countries such as India.
- Latin America is the largest microfinance market with about \$48 billion. Southeast Asia is second with more than \$35 billion and more than 85 million borrowers.
- Women represent 80% of microfinance borrowers among first-time borrowers because of their disadvantage due to poverty and social norms.
- The majority of microcredit beneficiaries in developing countries are from rural areas.

## **2.5.- MICROCREDITS AND THEIR REGULATION**

In the EU-27 there are different scenarios for regulating non-bank microfinance institutions to operate in each of the different territories, with 3 main scenarios (**Rodriguez-Ovejero, 2014; Ruesta and Benaglio, 2020**):

- Countries with national legislation on microcredit. Countries with their own microcredit legislation are: France (2001), Romania (2009), Italy (2010) and Portugal (2010) (Table 1).

Table 1. Countries with microcredit regulation and their laws

Country	Year	Decree/Law
France	2001	Nouvelles Regulations Economiques (Loi NRE 2001-420)
Romania	2009	Lege No 93/2009
Italy	2010	Decreto 141 che modifica Legge Testo Unico Bancario
Portugal	2010	Decreto-Lei nº 12/2010, de 19 de Fevereiro

*Own elaboration from The World Bank data.*

- Countries where there is no specific legislation on microcredit. But non-bank institutions can enter into contracts with individuals to disburse loans. The countries with these characteristics are: Belgium, Bulgaria, Finland, Hungary, Ireland, Luxembourg, Spain, Sweden and the Netherlands.
- Countries where there is no legislation on microcredit and the country's banking law limits lending to banks. Non-bank microfinance institutions must, in these cases, partner with a bank in order to be able to do their work. These countries are: Austria, Germany and Greece.

Table 2 summarises the different microcredit regulatory scenarios that may be found in Europe.

Table 2. Overview of Microcredit regulation by EU Member States

EU 27	With microcredit regulation	Without microcredit regulation and without bank monopoly for lending	Without microcredit regulation and with bank monopoly for lending	Countries not covered by the EMN Country reports
Austria			X	
Belgium		X		
Bulgaria		X		
Croatia				X

Cyprus				X
Czech Republic				X
Denmark				X
Estonia				X
Finland		X		
France	X			
Germany			X	
Greece			X	
Hungary		X		
Ireland		X		
Italy	X			
Latvia				X
Lithuania				X
Luxembourg			X	
Malta				X
Poland				X
Portugal	X			
Romania	X			
Slovakia				X
Slovenia				X
Spain		X		
Sweden		X		
The Netherlands		X		

*Ruesta and Benaglio, 2020.*

In most Central American countries, microfinance, as such, lacks its own regulatory framework or institutions oriented to this type of activity. Of course, regulated banks and finance companies that provide microfinance services operate under the legal

framework of the conventional financial system, and cooperatives in most countries have their own laws. Among these, only Honduras has a law regulating the operation of Organizaciones Privadas de Desarrollo Financieras (OPDF), Spanish for Private Development Finance Organisations), although, for the time being, there are few regulated entities. Other countries have made attempts to create a Microfinance Law, but have either given up or have passed the years without approving them, which indicates the lack of involvement on the part of the authorities in supporting microfinance (Redcamif, 2009).

It is necessary to study this financial instrument in depth because of the important role played by microfinance, and especially microcredits, in the current economic context and the regulations and norms for their effective articulation in the financial market.

## **3.- METHODOLOGY**

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### **3.1.- STUDY METHOD**

In order to respond to the objective of the study, we will analyse how regulation can favour the development of microcredit, both in developed and undeveloped countries, through a case study based on the methodology proposed by Yin, R. K. (1994). The choice of this methodology is due to the fact that it investigates a contemporary phenomenon within a real context, as well as the study of links between the phenomenon and the context, especially when these are not evident.

A case study is the empirical investigation of a phenomenon that is to be learned from within a real, everyday context. The case study is especially useful when the boundaries between phenomena and context are not entirely obvious and multiple sources of evidence are required.

In a case study, a researcher gets to know a reality, a case, by approaching that reality according to convenience or by being informed off-line from it, regardless of whether he or she follows a positivist or interpretative stance. The case study method is a valuable research tool, and its greatest strength lies in the fact that it can record and describe the behaviour of the people involved in the phenomenon under study, whereas quantitative methods only focus on verbal information obtained through questionnaires.



In a case study data can be obtained from a variety of sources, both qualitative and quantitative. Research can be descriptive, if the aim is to identify and describe the different factors that influence the phenomenon under study; exploratory, if the aim is to achieve an approach between the theories inscribed in the theoretical framework and the reality under study; and explanatory, if the aim is to discover the links between the variables and the phenomenon and to provide the observed relationships with sufficient theoretical rationality.

In this case study, official statistics from international organisations such as **The World Bank**, the **UN** and **ECLAC** will be used to gather information. Data from 2000 to 2020 will be analysed.

Subsequently, the information will be tabulated and comparative analyses will be carried out among the different cases analysed.

### **3.2.- SAMPLE**

In order to carry out the case study, the situation of microcredit in developed countries will be analysed, taking as a basis, in Europe, Spain as a country with practically no regulation and France with an important regulatory base. In Latin America, Honduras and Guatemala will be analysed, which are two countries with a high degree of both "total" and "extreme" poverty.

The main characteristics of the sample countries are shown in Table 3:

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Table 3. Data by country in 2020

		<b>SPAIN</b>	<b>FRANCE</b>	<b>GUATEMALA</b>	<b>HONDURAS</b>
<b>POPULATION</b>	Millions	47,35	67,39	16,86	9,90
<b>GDP per capita</b>	Euros	23694	34171	4265	2129
<b>INFLATION</b>	Percentage	-0,323	0,476	3,214	3,468
<b>ACTIVITY RATE</b>	Percentage	59,14	73,50	59,10	57,30
<b>UNEMPLOYMENT</b>	Percentage	15,53	8,01	3,55	8,37
<b>REMITTANCES</b>	% of GDP	1,36	0,84	11,92	18,68
<b>FEMICIDES</b>	% x 100000	0,18	0,13	1,30	4,70

*Own elaboration from different web pages.*

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### **3.3.- VARIABLES**

The variables to be analysed are, on the one hand, quantitative macro variables for each of the countries. Specifically, within the macro variables, we will focus mainly on the evolution of GDP and inflation from 1960 to 2020, in order to situate the economic context.

On the other hand, qualitative data will be analysed. Specifically, general data on the regulatory framework in which MFIs operate in each of the analysed countries .

Finally, in order to study the impact of microcredit programmes in the country, data from one of the main microcredit providers in the country under study will be analysed.

## 4.- RESULTS OF THE CASE STUDY

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### 4.1.- MICROCREDITS IN EUROPE AND THEIR REGULATION

This section will analyse the regulatory framework on microcredits and their impact (through the results of microcredit granting institutions) for the Spanish and French cases.

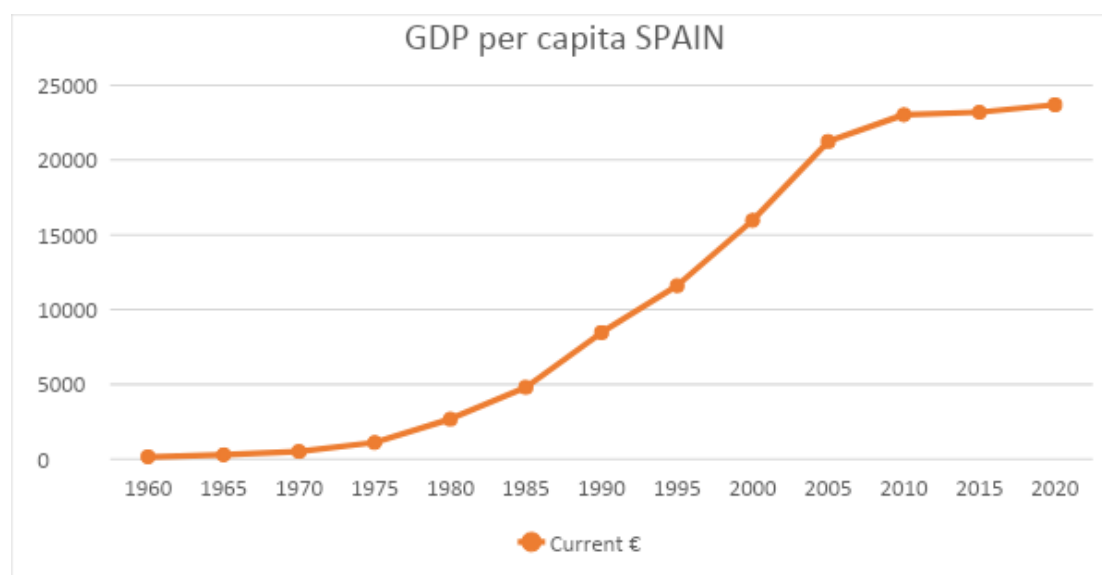
#### 4.1.1.- Microcredits in Spain

It is important, beforehand, to look at some macro data such as GDP per capita (Figure 2) and inflation (Figure 3) that can help to understand the country's situation over the last few years.

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Figure 2. GDP per capita in current €. SPAIN

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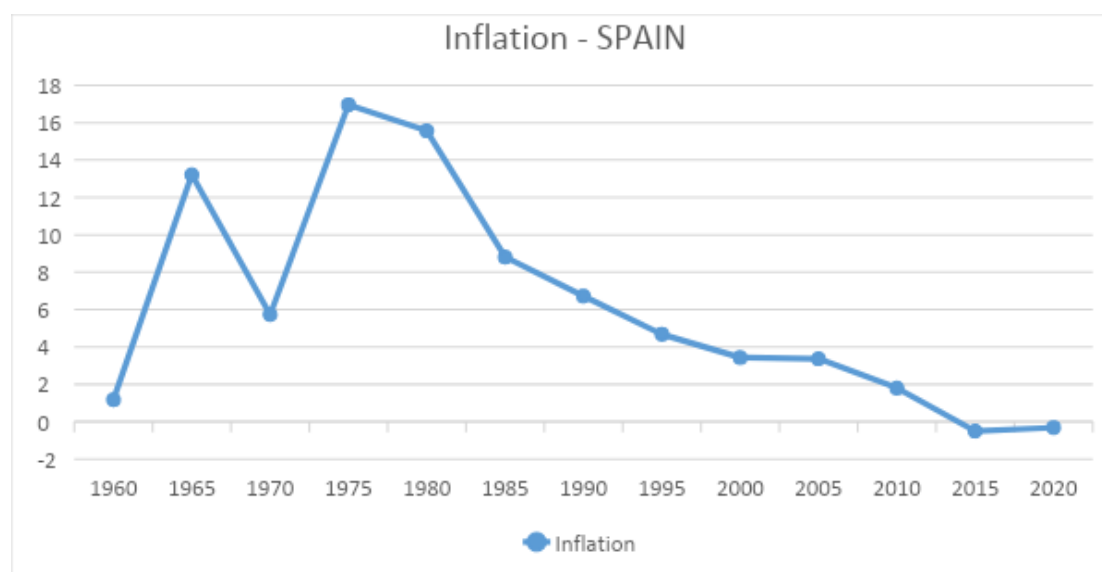
*Own elaboration from The World Bank data.*

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Figure 3. Inflation, consumer prices in percentage. SPAIN

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*Own elaboration from The World Bank data.*

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Spain had an important growth from the 1980s until 2007/8 when it had a big stop due to the Subprime crisis. At the same time, it is important to note the high inflation between 1962 and 1992, moderating from then onwards and reaching deflation in 2014, 2015, 2016 and 2020.

In this economic context, and with the help of various associations and non-governmental organisations, microcredit began to be introduced in Spain in 1990, at a time when per capita GDP was growing and inflation was falling. The Obras Sociales of different savings banks entered the sector in 2001, the pioneers being Caixa Catalunya, through its Fundación Un Sol Mon and Caja Granada, through its Fundación Caja Granada para el Desarrollo Solidario. From then on, other savings banks also began to develop their microfinance products and incorporated them into the microcredit market in collaboration with the microcredit support social entities (ESAM, which stands for Entidades Sociales de Apoyo al Microcrédito in Spanish). Today, practically all of these programmes have disappeared, with the exception of the one promoted by Obra Social La Caixa, which in 2007 turned it into a social bank called MicroBank.

In general terms, the procedure for the application and subsequent granting of a microcredit in Spain is usually as follows:

First the microentrepreneurs get in touch with an ESAM.

Secondly, if the ESAM sees the project as viable, it helps to organise the corresponding paperwork, mainly the business plan, which is necessary for the financial institutions to assess the viability of the plan.

Thirdly, the ESAM puts the microentrepreneur in contact with the credit institution so that the latter can carry out the credit rating and, if it considers the project viable, formalises the microcredit contract by providing the necessary documentation and funds (**Lacalle et al., 2006**).

However, microentrepreneurs can also apply for a microcredit by going directly to the microcredit programmes.

There are no specific regulations applicable to microfinance institutions in Spain and they are governed by the model and rules applicable to financial institutions when they take the form of credit institutions and by civil law rules when they take the form of non-governmental organisations. It should be borne in mind that the banking accounting regime and banking supervision rules are excessively rigid and entail high costs for this type of social promotion instrument.

Deposit-taking operations are restricted to credit institutions and the activity of granting credit to credit institutions and specialised financial intermediaries such as "credit financial establishments" regulated by Article 6 of Law 5/2015 of 27 April 2015 on the promotion of business financing and which, subject to authorisation by the Ministry of Economic Affairs and Digital Transformation, regulates the activities that they may carry out.

However, lending activity is not only reserved for financial institutions, as lending between private individuals is legal and will be commercial in the case of microcredit if the microfinance institution is a trader and the money lent is used for trading, as in the case of microentrepreneur borrowers. The loan is subject to Transfer Tax (ITP), although it is exempt if it is between non-traders, and to Income Tax (IRPF) as it is an onerous operation that earns market interest. In case it should be considered free of charge, it must be accredited and for this it is necessary to be able to prove compliance, so that the Treasury is clear that it does not conceal a donation that has a much more burdensome tax treatment.

The regulation and control of credit institutions is the responsibility of the Banco de España by delegation of the Minister of Economy and Competitiveness. Royal Decree-Law 14/2013 of 29 November, Law 5/2015 of 27 April and Royal Decree 309/2020 of 11 February and Bank of Spain Circulars set out the requirements for the authorisation, registration, solvency and supervisory regime of financial credit

institutions, which is where microfinance institutions should be framed along with other financial institutions engaged in granting consumer credit, mortgage loans and financing of commercial transactions.

As previously mentioned, one of the most important entities in Spain, within the banking sector, in terms of microcredits, is MicroBank: a social bank that was created in 2007 when it inherited the activity that until then had been carried out by Obra Social La Caixa.

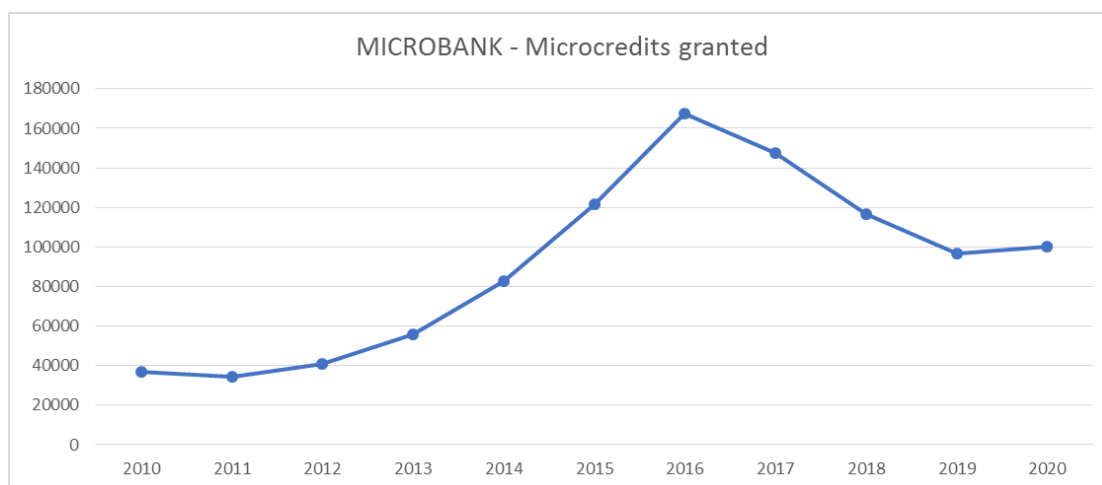
Its mission is: "To contribute to the progress and well-being of society. To facilitate financing for groups and projects that generate a favourable social impact"<sup>2</sup>. And they offer microcredits up to 25,000 Euros without collateral to promote "productive activity, job creation and personal and family development", although they also dedicate part of their efforts to supporting products and services that contribute to a positive and measurable social impact on society, which develop their activity in sectors such as entrepreneurship, social economy, education and health. At no time does it fund activities such as "weapons industry, gambling and betting, pornography, tobacco and products that are harmful to the environment".

Data supporting MicroBank's (**MicroBank, 2020**) performance in recent years can be seen in Figure 4 (Microcredits granted), Figure 5 (Amount of microcredits granted) and Figure 6 (Average amount of microcredits granted) and show MicroBank's great progress in recent years in terms of the number of microcredits granted, the money allocated to them and even the gradual increase in the average amount invested in microcredits, despite the dip in investment volume in 2018 and 2019, which was recovered in 2020. The percentage of microcredits granted to women in 2020 is 33%.

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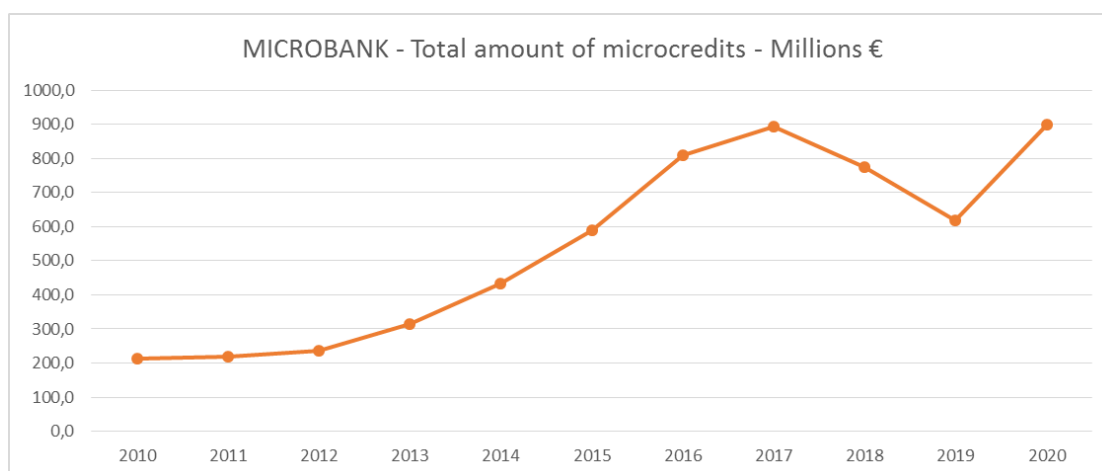
<sup>2</sup> MicroBank: Website.

Figure 4. MicroBank. Microcredits granted in units



*Own elaboration based on data obtained from MicroBank's annual reports.*

Figure 5. MicroBank. Total amount of microcredits - Millions €.

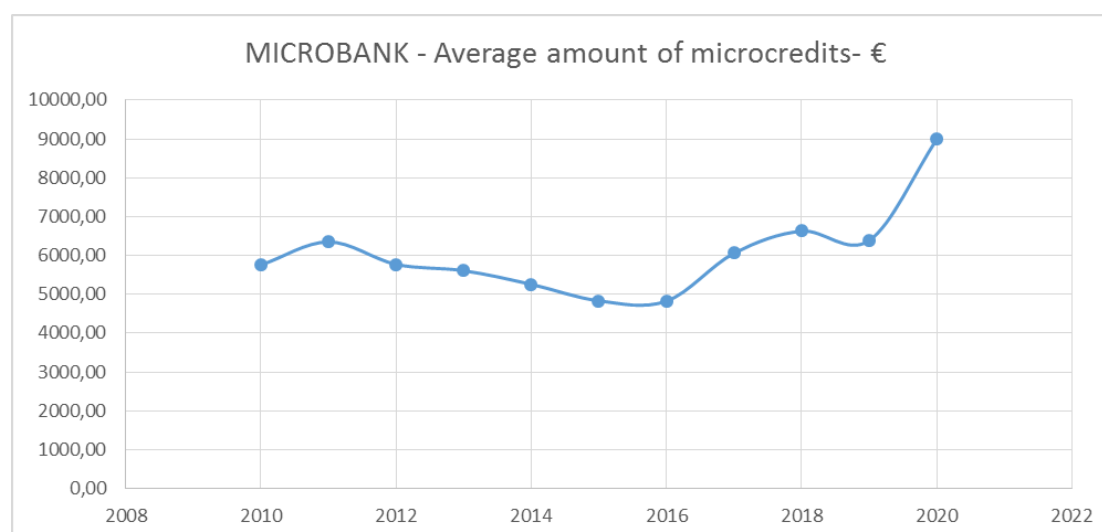


*Own elaboration based on data obtained from MicroBank's annual report.*

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Figure 6. MicroBank. Average amount of microcredits - €.

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*Own elaboration based on data obtained from MicroBank's annual reports.*

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An example of an ESAM is Nantik Lum, created in 2003 by a group of professionals sensitised to the serious problem of poverty and exclusion. Its name means Mother Earth in the Mayan Tseltal language, as its founders began by helping indigenous women in the Lacandon jungle of Chiapas, Mexico. And since 2011, following the inspiration of Muhammad Yunus, they have been developing Social Action projects in Spain through microfinance and financial inclusion. They offer training, advice and access to finance to highly vulnerable people, accompanying them in their process of inclusion through self-employment.

Their mission, as stated on their website is: "Transforming people's lives through microfinance"<sup>3</sup>. They have several work programmes to which they dedicate their resources: Programa de Prevención del Sobreendeudamiento, Programa Avanza (with sections on Training, Advice and Support for the creation of self-employment), Programa Crea (to help women in the creation of self-employment and financial health), Programa de Cooperación Internacional (mainly in the Dominican Republic) and Programa PEM (Online Platform for Entrepreneurship).

Figure 7 shows the main data of Nantik Lum's work (Women served, Men served, Businesses created and Hours of training provided), showing that more women than men have been taken care of and that there has been a strong push for training in 2020.

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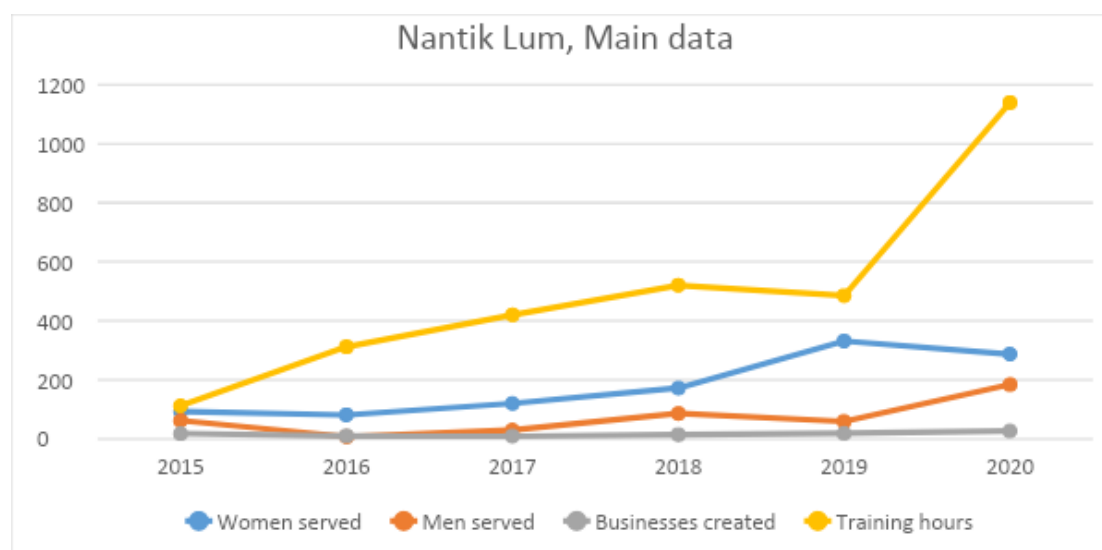
<sup>3</sup> Nantik Lum: Website.



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Figure 7. NANTIK LUM. Main data

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*Own elaboration based on data obtained from Nantik Lum annual report.*

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One of the main beneficiaries of microcredit programmes in Spain are immigrants. They meet the main characteristics that any potential beneficiary of a microcredit must fulfil:

- i) They are excluded from the formal financial system, have no collateral or bank guarantees.
- ii) They belong to one of the most vulnerable population groups at risk of exclusion due to their job insecurity and social uprooting.
- iii) They tend to be people with a strong entrepreneurial spirit.

Most of the immigrants in Spain come from lesser developed regions of the planet. Their migratory movements are part of a global and worldwide phenomenon that seem to have become more accentuated in recent times due to the process of economic globalisation and the strong differences between rich and poor worlds. These migratory movements are not only caused by economic reasons, but also by the existence of war, ethnic and religious conflicts, which cause millions of refugees to travel far from their countries.

Immigrants are one of the groups of microcredit beneficiaries in Spain, along with vulnerable women, the long-term unemployed, the over-45s, disabled people and ethnic minorities.

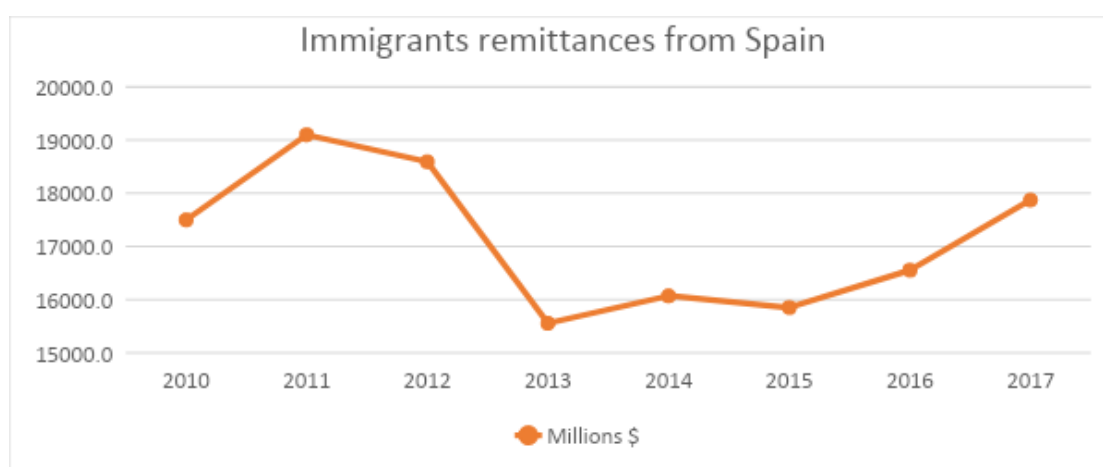
Thanks to the process of labour insertion, both in self-employment and in the field of paid employment, it contributes not only to reduce the dependency rate in the destination countries, such as Spain, but also to the generation of wealth in the countries of origin through the increase in remittances (**Lacalle et al., 2006**).

Workers' remittances to their countries of origin from Spain (Figure 8) had been increasing until 2011 and then decreased due to the crisis, only to grow again in 2016 and reach the same amount in 2017 as in 2010 (Expansión, 2018).

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Figure 8. Evolution of immigrant remittances from Spain

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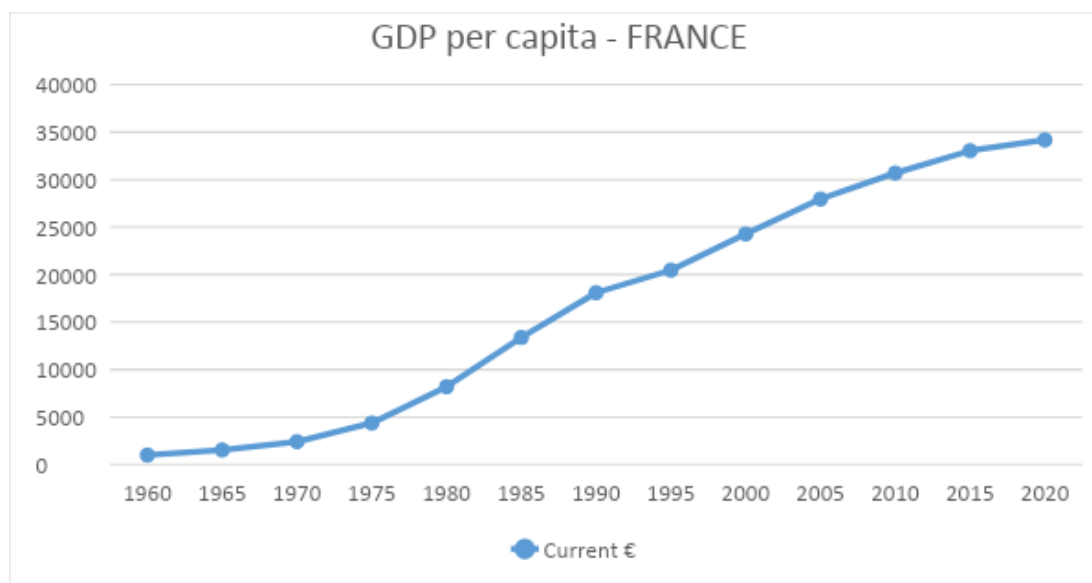
*Own elaboration from Expansión, datosmacro.*

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#### 4.1.2.- Microcredits in France

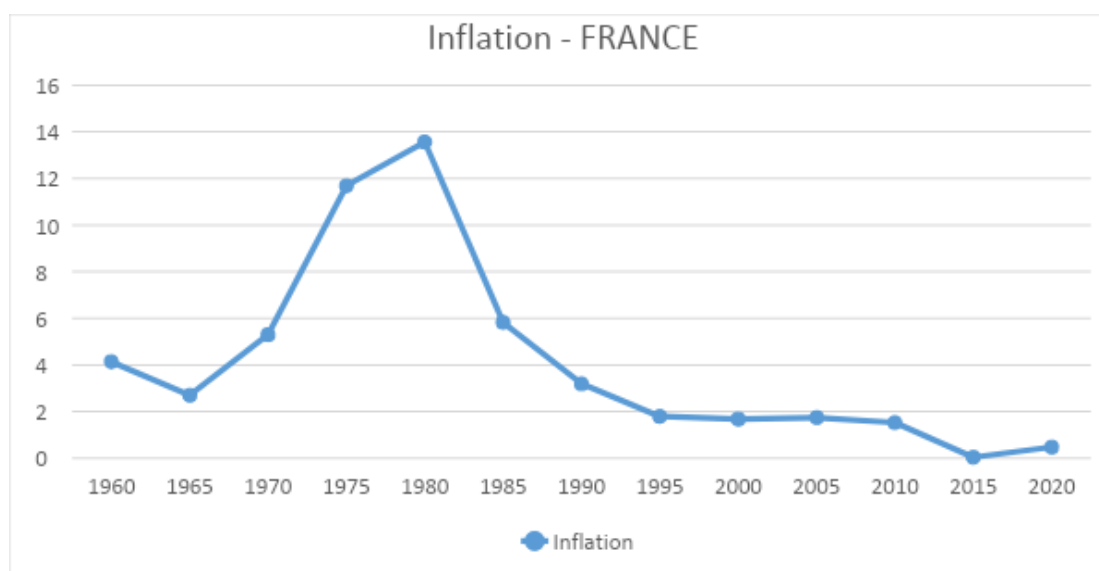
France's macro data on GDP per capita (Figure 9) and inflation (Figure 10) indicate that its growth has been constant and significant from the 1970s to the present day, with a small setback in 2009 due to the subprime crisis and in 2020 due to the COVID-19 pandemic crisis. Inflation was high between 1969 and 1985 but did not reach 14% and at no time has inflation been negative (in the last 60 years).

Figure 9. GDP per capita in current €. FRANCE



Own elaboration from The World Bank data.

Figure 10. Inflation, consumer price in percentage. FRANCE



Own elaboration from The World Bank data.

In France, as **Lazar (2017)** points out, microfinance institutions are regulated indirectly by being mentioned in the general rules of banking law as specialists in providing

non-profit credit to promote business or social inclusion. Credit operations are regulated by different articles of the Monetary and Financial Code, which indicate the framework applicable to credit institutions and the modes of supervision of French financial institutions, distinguishing between two types of institutions that can provide microcredit:

1. Instituciones de Crédito (*établissements de crédit*), equivalent to Spanish banking institutions.
2. microfinance institutions (non-profit or social MFIs), although not specifically regulated, fall into the category of credit institutions, but are not in the form of credit institutions or credit entities.

Credit institutions are divided into five categories: Banks (*Banques*), Mutual or Cooperative Banks (*Banques Mutualistes ou Coopératives*), Financial Companies (*Sociétés Financières*), Municipal Credit Unions (*Caisses de crédit Municipals*) and Specialised Financial Institutions (*Institutions Financières spécialises*). Of these, only some of the *Sociétés Financières*, which are not banks or credit co-operatives, should be considered Microfinance Institutions, but may grant microcredits with limitations indicated in their operating authorisation and grant consumer loans, renting and factoring, although they are limited in the receipt of deposits, with the exception of the microfinance institutions that grant loans from their own funds, which may receive deposits but only for a term of more than 2 years.

With regard to non-profit or social microfinance institutions, the *Code Monétaire et Financier* allows them to provide financial services, like banks, although there is no special distinction from Associations or Foundations. The maximum amount they are allowed to grant is 6,000 euros for loans to individuals and 10,000 euros for loans to microenterprises, both to the unemployed or socially excluded and to start-ups. Recent laws (2008-776 and 2010-737) reforming consumer credit broaden the options and accept the granting of microcredits by specialised platforms such as Babyloan<sup>4</sup>.

There is no specific supervisory and control regime for microfinance institutions in the French legal system, so they have to abide by the rules of financial institutions, with the Prudential Control Authority (ACP) supervising that the financial system is stable and that customers are sufficiently protected. The French Central Bank is responsible for regulating the rules of financial institutions.

However, it must be taken into account that, as there are no specific regulations for finance companies (microfinance institutions), they must comply with all the rules and

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<sup>4</sup> BABYLOAN: Website.

requirements of financial institutions (banks), which leads to rigidity and extra costs that do not correspond to the function and flexibility that these institutions need for their proper development and to be able to fulfil their social objectives.

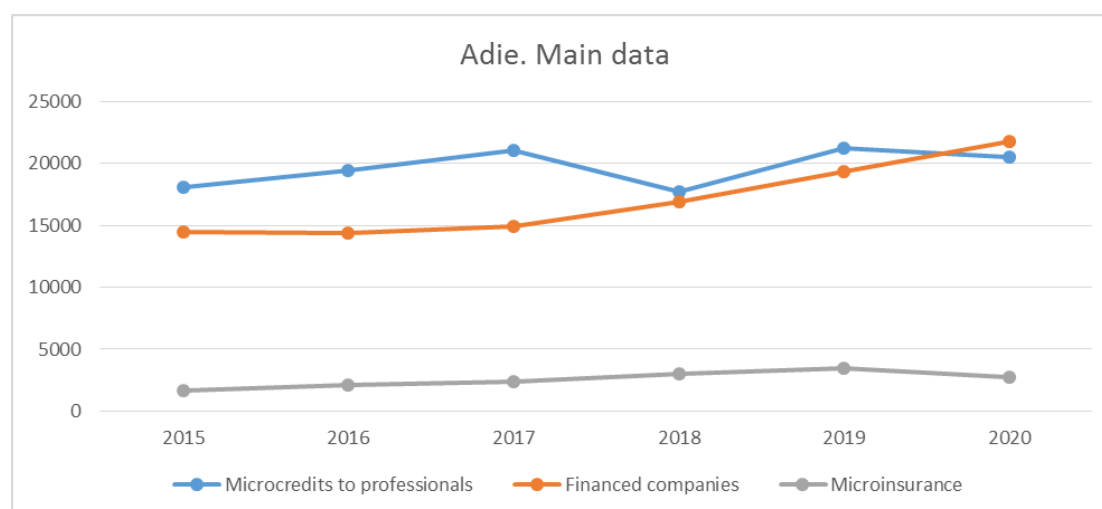
In 1989, the economist Maria Nowak, involved in development and microfinance projects, particularly in Burkina Faso and Albania, decided to apply the methods implemented by the professor and Nobel Peace Prize winner in France. This is how *Association pour le Droit à l'Initiative Economique (ADIE)* was born.

It took Maria Nowak more than a year to find the first people interested in starting a pilot project with small grants, because no one believed that the *Grammen Bank* concept could be transferred to Europe.

Adie is a non-profit association recognised as a public utility, created with the support of *Crédit Agricole* (a French network of cooperative banks that has become an international generalist banking group). For 30 years it has been financing and supporting people who want to become self-employed or who want to consolidate their small business, but do not have access to bank credit. They provide microcredits of up to 6,000 euros which can be complemented by what they call in France a "prêt d'honneur" or loan of honour, which is a leveraged extra loan of 4,000 euros, up to 10,000 euros in total. They have a long history of supporting entrepreneurs and granting microcredits.

Figure 11 shows Adie's main data in units (Microloans to professionals, Companies financed and Microinsurance contracted in recent years). It shows that from 2015 to 2020 Adie has continued its progression in the granting of microcredits to both professionals and companies, growing more in the latter. Unlike MicroBank in Spain, in France there is no recession in the granting of microcredits in 2018 and 2019.

Figure 11. Adie. Main data in units



*Own elaboration based on data obtained from Association Adie annual report.*

Adie's mission is: "To finance the creation of companies that do not have access to bank credit, especially unemployed people and those receiving minimum benefits. To accompany before, during and after the creation of the company to ensure its sustainability. Contribute to the improvement of the environment, the institution of microcredit, the creation of companies and labour insertion".<sup>5</sup>

Every three years, Adie conducts an impact study with business creators through a survey carried out in all French territories, including provinces outside Europe (New Caledonia and French Polynesia). This study measures the main impact indicators: sustainability, integration and job creation. The aim is to establish a diagnosis of the financial and economic health of microcredit users and to find out the socio-professional future of those who have closed down their activity.

84% of the companies created in 2017 were still active in 2020, despite having gone through a strong recession due to the impact of Covid-19, both in spring and autumn 2020. In the study from 3 years earlier, only 69% of firms were active after 3 years and the national average in France was 68% (**Adie, 2021**).

Most of the entrepreneurs were active and in the labour market whether they continued with their company or had already closed it and they agreed that it was easier for them to find a job after their experience in setting up their company.

<sup>5</sup> Adie: Website.

In terms of job creation, each entrepreneur has hired 1.26 salaried workers on average in addition to their own job/salary. And 20% of them say that they intend to hire 1 worker in the next 12 months. The percentage of microcredits granted to women is 41% in 2020<sup>6</sup>.

## 4.2 MICROCREDIT IN CENTRAL AMERICA AND ITS REGULATION

After analysing the European case, the regulatory framework on microcredit and its impact in Guatemala and Honduras will be analysed.

In order to understand the situation of Central American countries, it is necessary to explain the "*Dependency theory*". Faced with the stagnation suffered by the economies of Central American countries in the 1950s, Raul Prebisch, economist and executive secretary of ECLAC tried to find an explanation and developed this theory. He explained that the growing inequality was the result of the difference in trade relations between, what he called, "core countries", which have a high degree of investment in their productive fabric and therefore the goods and services they produce have a high added value, as opposed to the so-called "peripheral countries", with a low level of industrialisation, that basically produce food and raw materials with little added value and low prices.

The economies of developed countries are self-sufficient and have a robust economy that is becoming increasingly stronger, in contrast to those of underdeveloped countries, which are becoming increasingly fragile, weak and uncompetitive due to a greater degree of marginalisation, both industrial and technological, becoming intensely dependent on the developed country that acts as the centre. As a result of this, the inequality between the two sides is increasing (**Quiroa, 2020**).

When crises such as the one resulting from the global pandemic caused by the COVID-19 virus occur, these differences are even more accentuated, as developed countries emerge easily from these situations and developing countries find it extremely difficult to return to the previous situation. A recent ECLAC report indicates that the extreme poverty rate in the countries under its influence increased by 5 million people in 2021, from 81 to 86 million people between 2020 and 2021 (a 27-year setback) (**ECLAC, 2022**).

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<sup>6</sup> Adie. Activité 2020 Report

Another important issue to take into account is the situation of women in relation to gender violence in the region and more specifically to femicide, which is very high in Latin America. For this reason, gender equality, protection and help for women are at the heart of the intentions expressed by most microfinance institutions, mainly due to the great inequality and even exclusion that exists in society. This is especially relevant in Guatemala (between the dominant society and the ethnic minority), as women and children are the main victims of this situation (CIDH, 2015). Also in Honduras, where poverty is among the highest ones in Latin America and second only to Haiti, the situation of rural women is extremely precarious (Ordoñez and Pacheco, 2021).

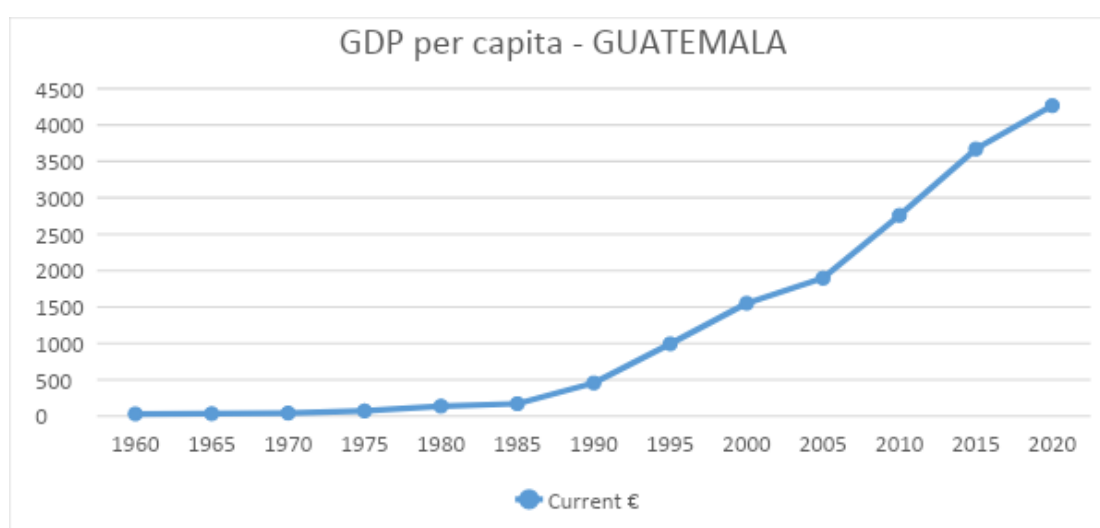
#### 4.2.1.- Microcredits in Guatemala

Macro data for Guatemala on the evolution of GDP per capita (Figure 12) and inflation (Figure 13) show that GDP per capita in Guatemala has been low, as has GDP in neighbouring Central American countries (Honduras, El Salvador, Nicaragua, etc. ). Only Mexico has a decent GDP in this region. Inflation has been high between 1973 and 2008 (with the exception of 1982, 1983 and 1984) and with extremely high peaks (1986: 36.931%, 1990: 41.222% and 1991: 33.166%).

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Figure 12. Evolution of GDP per capita in Euros. GUATEMALA

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*Own elaboration from The World Bank data.*

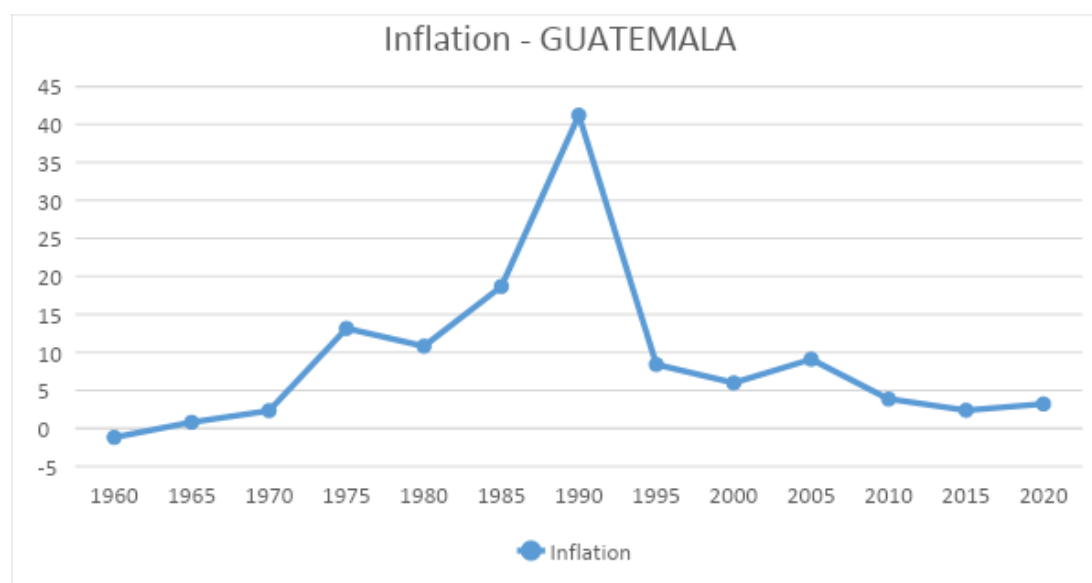
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Figure 13. Evolution of inflation. Consumer price in percentage. GUATEMALA

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*Own elaboration from The World Bank data.*

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In a context of growth, on 12 April 2016, the Congress of the Republic of Guatemala approved initiative 4791: Law on Microfinance Entities and Non-Profit Microfinance Entities. This decree (25-2016) was published in the official gazette in May 2016, coming into force at the end of the year (**Decreto número 25-2016, Banco de Guatemala**).

According to the communiqué issued by the Minister of Economy: *"the Microfinance Law provides the formal financial system with entities that specialise in serving entrepreneurs in micro and small and medium-sized enterprises sector (SME). In other words, it strengthens microcredit and microfinance as an option for reducing poverty.*

This law regulates: *"the constitution, authorisation, merger, functioning, operations, services, suspension and liquidation of Microfinance Savings and Credit Institutions (MAC) and Microfinance Investment and Credit Institutions (MIC)".*<sup>7</sup>

The law sheds light on microfinance companies in the country so that they can disclose the necessary information about their products, activities and services, and so that entrepreneurs in micro and SME enterprises can make informed decisions about contracting loans. Microfinance companies will also be able, as a result of this law, to receive savings deposits in national currency or in foreign currency, as well as to create

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<sup>7</sup> CentralAmericaData: Guatemala: New Microfinance Law. 15 April 2016

and negotiate bonds, with prior authorisation from the Monetary Board, although there is another way of entering into microfinance in Guatemala, apart from the banking system, and that is through Savings and Credit Cooperatives, which are governed by Ley de Cooperativas stated by Decreto del Congreso de la República 82-1978.

In 2001, the Network of Microfinance Institutions (REDIMIF) was established in Guatemala with the purpose of being the representative entity of institutions specialised in Microfinance. Nowadays, it integrates 17 MFIs and 266,723 clients, with 70.3% of them being women and 79.5% coming from rural areas. They also operate a portfolio of 314.16 million dollars (**Redcamif, 2022**).

In association with 6 other networks of microfinance institutions from other Central American and Caribbean countries, they form the Central American and Caribbean Microfinance Network (Redcamif) which, with the support of ADA and Luxembourg Aid & Development. They carry on joint activities and assist each other in the development of microfinance work.

Share Association of Guatemala (SHARE) is one of the *Alternative Microfinance Institutions (AMI)* in Guatemala and is one of the member Non Gubernamental Organisations (NGOs) of REDIMIF.

It began implementing Social Development Programmes in 1987 under the principle of sharing, fostering resilience from the individual to the community. Its mission is: "*To contribute to the transformation of people's quality of life through comprehensive, responsible and timely financial solutions*".

From its beginnings it developed different projects: Infraestructura Rural y Alimentos por Trabajo, Proyecto Materno Infantil, Conservación de Recursos Naturales y Fondos Comunales (credits to women), first in the vicinity of the department of Guatemala and later in other departments of the country.

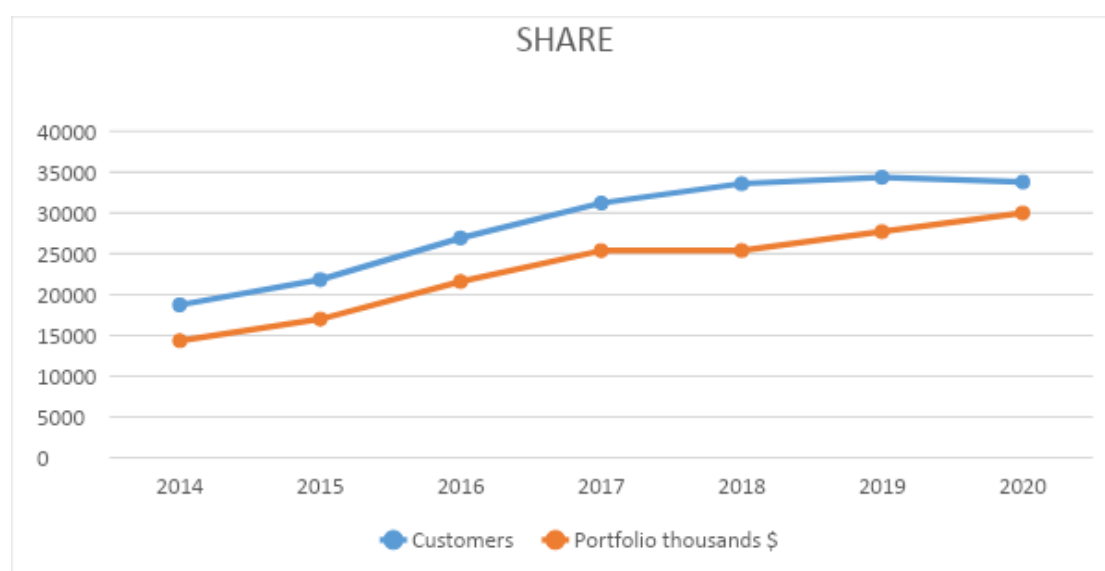
In 2001 it started its Programa de Desarrollo Empresarial, which is still successfully maintained through SHARE's program Créditos que transforman vidas. The Apoyo a la Educación programme improved access to primary and secondary education; it also diversified education for girls and boys and strengthened the national education system.

All these projects and programmes have been made possible thanks to the support of different organisations, among which the following stand out: U.S. Agency for International Development (USAID), World SHARE, The World Bank, United States Department of Agriculture (USDA), Office of Foreign Disaster Assistance (OFDA), among others.

In 2019 they created a Savings and Credit Cooperative (SHARE, R.L.), in order to expand services, reach more people, deepen the market and work towards greater financial inclusion<sup>8</sup>.

Figure 14 shows the data on clients in units and microloan portfolio in thousands of US dollars. There is a steady increase in the number of clients and the volume of microloans from 2014 to 2020. It should be noted that Share's clients in 2020 were made up of 67% women and 33% men, 80% of them from rural areas and 20% from urban areas.

Figure 14. SHARE Main data. Customers in units. Portfolio in Thousand \$



*Own elaboration based on data obtained from SHARE annual reports.*

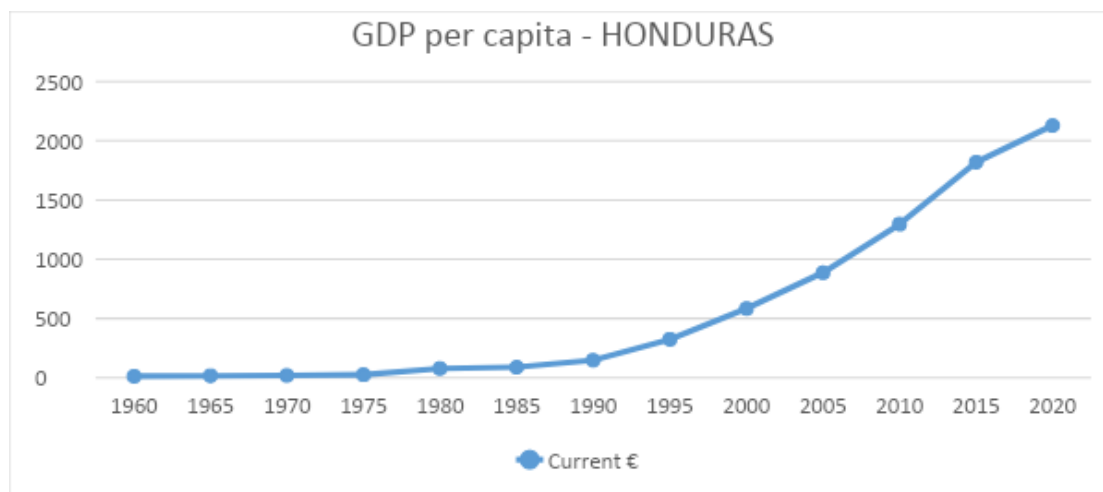
#### 4.2.2.- Microcredits in Honduras

Regarding macro data in Honduras, GDP per capita (Figure 15) is, historically, still lower than that of Guatemala. Since 1990 it has grown to some extent and continuously, arriving in 2020 at a GDP per capita of 2128 euros. Inflation (Figure 16) had a period of high inflation between 1973 and 1983, followed by a period of moderate inflation between 1984 and 1988, which gave way to two peaks of very high inflation (1990: 23.323%, 1991: 33.972%) and (1994: 21.729%, 1995: 29.465%, 1996: 23.838% and 1997: 20.2%), remaining high until 2008 and moderating to the present.

<sup>8</sup> Shareguatemala: Website.

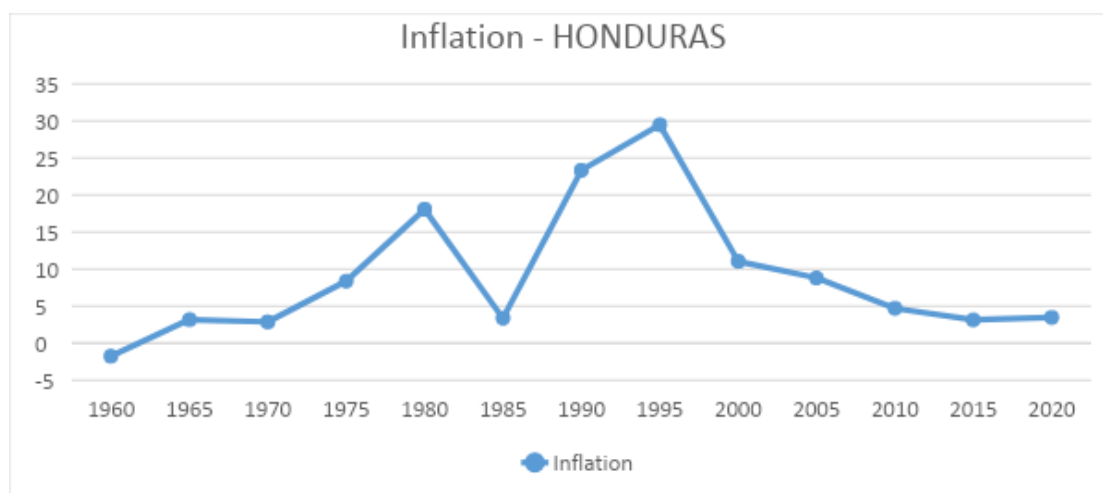
Honduras has the third lowest GDP per capita in Latin America after Haiti and Nicaragua. Although its government is making a great effort to try to reach the entire population with inclusion, in 2019 only around 50% of people over 18 had a bank account according to Comisión Nacional de Bancos y Seguros (CNBS, 2020).

Figure 15. GDP per capita in Euros. HONDURAS



Own elaboration from The World Bank data.

Figure 16. Evolution of Inflation. Consumer Price in percentage. HONDURAS



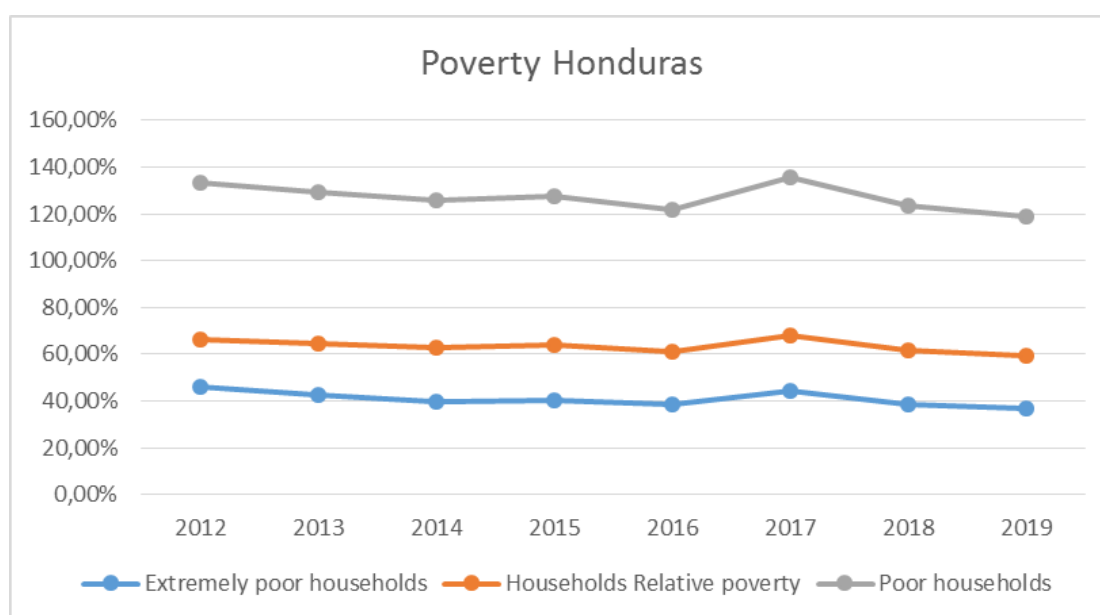
Own elaboration from The World Bank data.

The Instituto Nacional de Estadística from Honduras (INE, 2022) ,in its annual publications on figures for the country, indicates the number of households considered poor with an indication of the percentage of relative poverty and extreme poverty (Figure 17) and also the percentage of people living in households with a per capita income of USD 1 or less (Figure 18)<sup>9</sup> . Data show, even with the knowledge of the state, the absolute poverty that prevails in the country.

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Figure 17. Poverty in Honduras. Households percentage

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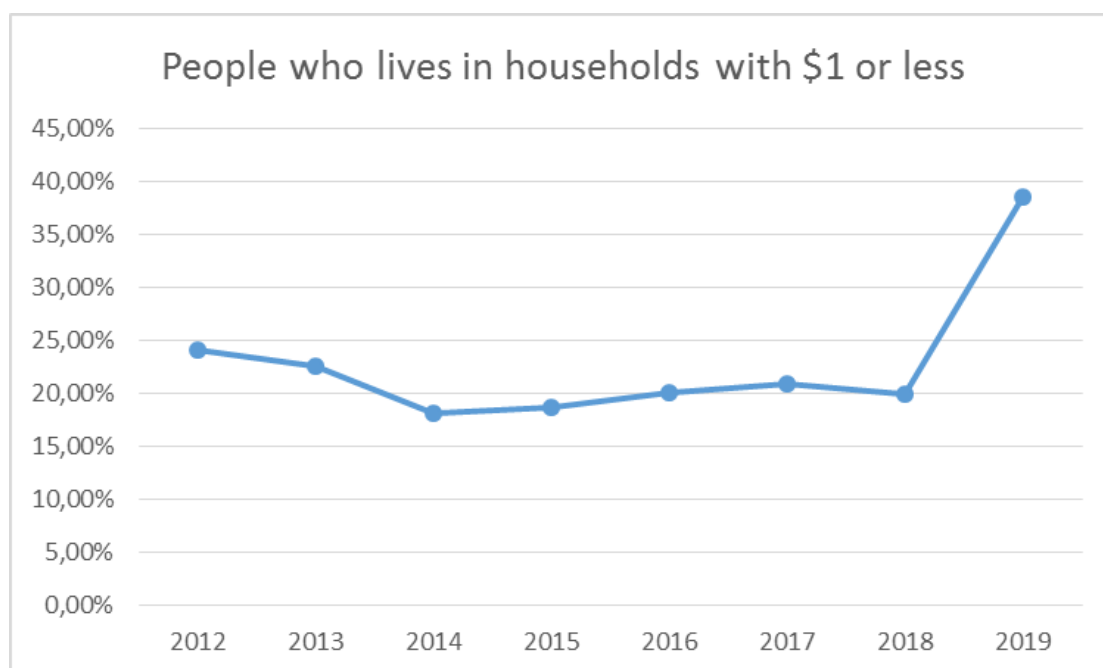
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*Own elaboration from INE Honduras data.*

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<sup>9</sup> INE (Honduras): Website.

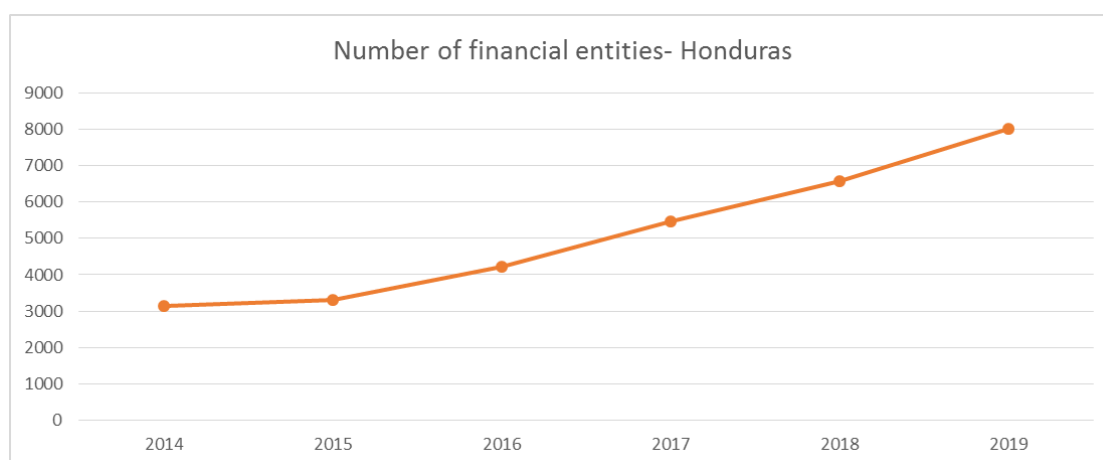
Figure 18. People who live in households with \$1 or less, in percentage. HONDURAS



*Own elaboration from INE Honduras data.*

The large growth in the number of financial offices throughout the country (Figure 19) is an evidence of the efforts of both the government and financial institutions to try to reach as many people as possible with inclusion.

Figure 19. Number of financial entities. HONDURAS



*Own elaboration from CNBS informs.*

In February 2001 it is defined by law how OPDF entities must be created, and subsequently in February 2012 it is defined how they are regulated. Their main objectives are:

- To favour the strengthening of the sector
- Sustainability of OPDFs
- Prudent management (legality and security in its operations)
- To establish internationally accepted benchmarks
- To establish a control and monitoring system
- Promotion of operations transparency

This law also regulates all matters concerning the OPD (Private Development Organisation) and OPDF entities, which are the entities authorised by the CNBS to grant microcredits to natural persons and SMEs:

1. Authorised operations
2. External indebtedness
3. Limits on the granting of credit
4. Caps on annual interest rates
5. Criminal and administrative sanctions and liabilities

In Honduras there are several OPDFs and the basic demands for the granting of microcredit are:

- Be Honduran by birth or naturalised
- Be a natural person between 18 and 70 years of age.
- Have permits to operate the business or activity.
- Present at least one receipt or invoice for payment of your services.
- Have experience in economic activity
- Present personal identification document

In 2020, the number of OPDF institutions authorised to offer loans and, at the same time, receive savings and fixed-term deposits was (**CNBS, 2020**)<sup>10</sup> :

1. Fundación Micro-financiera Hermandad de Honduras, OPDF (HDH)
2. Asociación Familia y Medio Ambiente, OPDF (FAMA)
3. Fundación para el Desarrollo de Honduras Vision Fund, OPDF (FUNED)
4. Proyectos e Iniciativas Locales para el Autodesarrollo Regional de Honduras, OPDF (PILARH)
5. Fondo para el Desarrollo Local de Honduras, OPDF (CREDISOL)

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<sup>10</sup> CNBS Publications, List of Supervised Institutions

There are no laws that specifically regulate the granting of microcredits, and it is the banking laws in force in the country that regulate them. Noteworthy is the Decree Law for the creation of a national programme of solidarity credit for rural women, known as the CREDIMUJER programme (**Decreto nº 110-2015**), whose purpose is to "promote the development of productive activities and services that contribute to the improvement of their personal, family and community living conditions" and aims to provide access to credit and technical assistance to meet the local demands of organised rural women, with the following conditions:

1. The project must have a business plan to develop and the credit must be used for the purchase of capital goods or working capital.
2. The solidarity group has experience in the business to be carried out.
3. The applicant indicates in which market its products will be sold.

The law emphasises that this programme is for interventions throughout the country, but especially in communities that are shown to have a higher incidence of poverty and in areas of high "agro-ecological" vulnerability.

It also specifies that it aims to reduce the vulnerability of the gender condition, support women's economic and social participation and comply with the "commitments assumed by the State of Honduras in international treaties and conventions on women's rights".

On the other hand, it is important to highlight the importance in underdeveloped countries of the remittances sent by emigrants from developed countries. Once migrants have arrived, legally or illegally, in first-world countries and have settled, either through paid employment or even self-employment sponsored by a microcredit, they begin to send remittances to their direct family, which is very important in countries such as Honduras.

According to the Centro de Estudios Monetarios Latinoamericanos (CEMLA) (**Cervantes, 2017**), the behaviour of remittances received by the financial system in Honduras shows a steady growth over the last few years and especially during 2019 represented an increase of 19% compared to 2018 (Table 4).



Table 4. Behavior of remittances received. HONDURAS

YEAR	NUMBER	AMOUNT (Million Lempiras)
2017	11.405.148	L72253,30
2018	12.995.574	L83050,60
2019	15.181.367	L98794,00

*Cemla (2020): Financial inclusion in Honduras report.*

These remittances constitute one of the main sources of income for these households in the country, and even for the country itself since they constituted 22.1% of Honduras' GDP in 2019 (**Delgado, 2021**), and are sent by the migrant population to their direct family members: parents, children or spouses to cover basic or consumption needs such as food, medicine, education, home improvements or investments in family businesses (**Cervantes and Uribe, 2017**). If remittances are dedicated to investments in family businesses, they directly influence the increase in production and, in fact, families that receive family remittances may be more likely to invest (**De Haas, 2010**).

In 1998, the Red de Micro-financieras de Honduras (REDMICROH) was founded in Honduras, a non-profit association whose main objective is to represent its members, coordinating and channelling the efforts and resources of the associated institutions to promote projects of common benefit related to microfinance.

It currently has 25 MFI partners, which bring together 265,011 clients, 53.6% of whom are women and 51.9% of them live in rural areas, with a total portfolio of USD 490.81 million.

REDMICROH is part of the Central American and Caribbean Microfinance Network (REDCAMIF) together with 6 other associations from other Central American and Caribbean countries.

One of the most important MFIs within the OPDFs authorised and supervised by the CNBS is the Asociación Familia y Medio Ambiente OPDF (FAMA) which was born in 1993 in Aldea de San Nicolás (Municipality of Juticalpa). In its beginnings it had two programmes: Crédito con Educación and Agricultura Sostenible.

Crédito con Educación is a programme targeting groups of women engaged in a productive activity, who do not have access to private banking. Through the

methodology of community banks, they are offered a small loan to strengthen microenterprises and benefit the population, improving living conditions in rural areas.

Agricultura Sostenible is a programme whose purpose is to strengthen small producers through training and technical assistance directly on their farms, seeking the preservation of the environment with the use of organic techniques and products. The FREEDOM FROM HUNGER Foundation (FFH) provided technical advice and initially financed the programme, as it already had years of experience in another programme with the private organisation Alimentos para Millones.

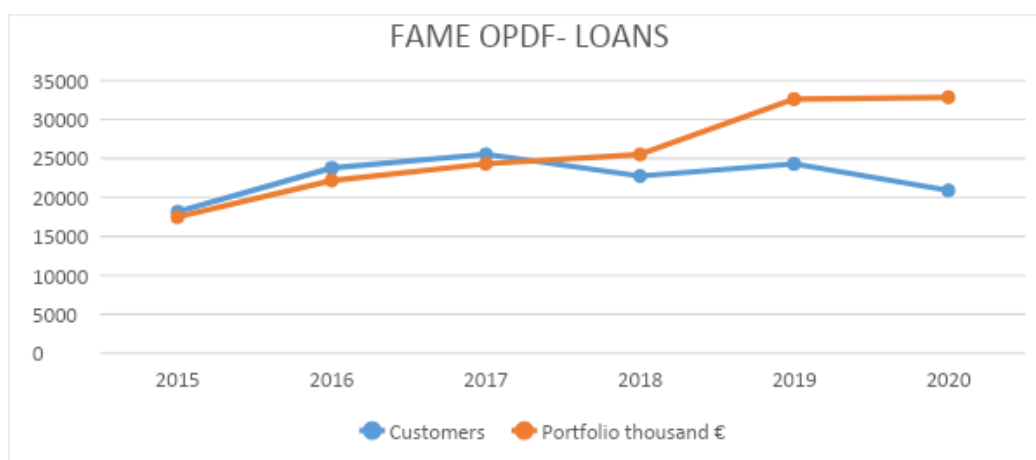
Currently, they are defined as a Honduran, non-profit, non-political and non-religious OPDF, regulated by the CNBS, whose objective is to promote the strengthening and development of producers and microentrepreneurs in rural and urban areas and whose mission is: *"To provide quality and timely financial products and services so that men and women have equal opportunities to develop their micro or small commercial, agricultural, industrial or service enterprises"*<sup>11</sup>.

Below is the data extracted from the organisation's annual reports. Figure 20 shows the loans granted and the number of clients. In Figure 21 the number of bank accounts and the amount of these accounts and in Figure 22 the number of remittances received and their amount. Data show the great work that FAMA OPDF does in Honduras in the microfinance sector and the setback it suffered in 2020 due to the COVID-19 pandemic.

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Figure 20. Loans in thousand € and Customers in units. FAMA OPDF

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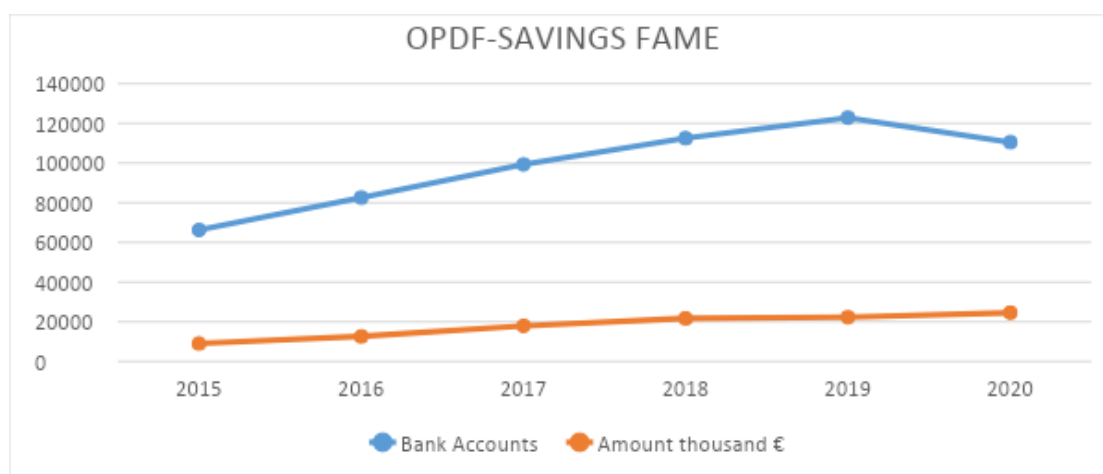
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*Own elaboration from FAMA OPDF data.*

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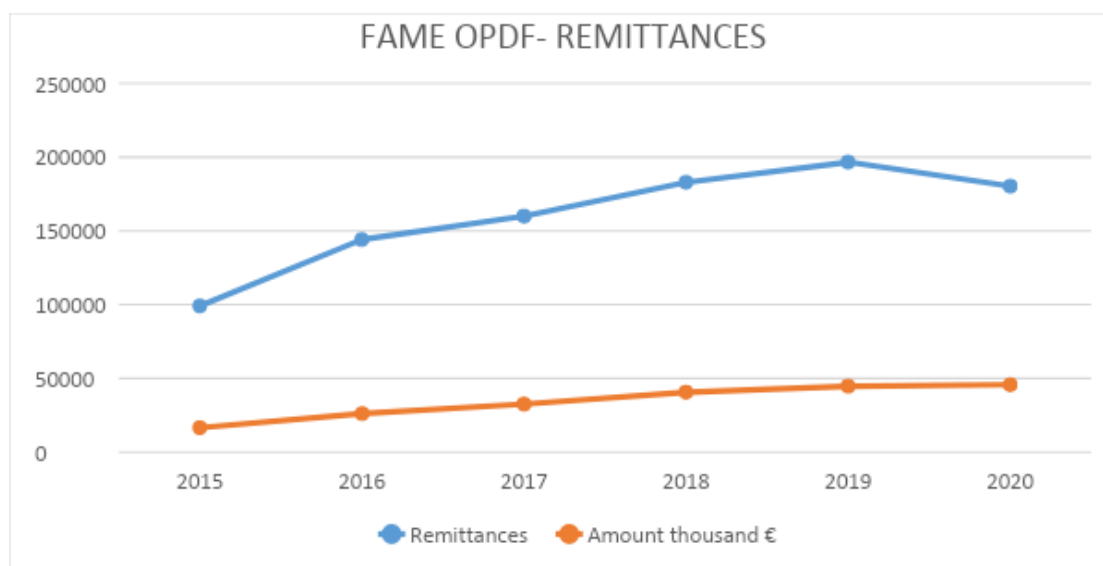
<sup>11</sup> FAMA: Website.

Figure 21. Bank accounts and amount in thousand €. FAMA OPDF



Own elaboration from FAMA OPDF data.

Figure 22. Remittances and amount in thousand € received in FAMA OPDF



Own elaboration from FAMA OPDF data.

### 4.3.- COMPARISON BETWEEN THE DEGREE OF INTEGRATION OF MICROCREDITS IN EUROPE VS. CENTRAL AMERICA.

In Latin America, microcredits began to be marketed before Europe and this is clearly due to the influence of Muhammad Yunus, reaching the less developed countries first, rather than the more developed ones. Due to the fact that in developing countries extreme poverty is very widespread, the recipients of these credits are mainly poor people and women, while in more developed countries the beneficiaries are people in a situation of precarious employment or unemployment, poor people and women in much smaller numbers.

Table 5. Comparative analysis between developed and developing countries

	SPAIN	FRANCE	GUATEMALA	HONDURAS
<b>GDP per Capita</b>	High	Very High	Low	Very Low
<b>INFLATION</b>	Low	Very Low	Very High	High
<b>NORMATIVE</b>	Not	Yes	Yes	Yes
<b>INTEGRATION</b>	High	High	Mainly Women	Mainly Women

*Own elaboration from different web pages.*

As shown in Table 5, there are significant differences between microcredits in developed and developing countries. In Spain and France, microcredits are granted by banking institutions which, although they have a social component, seek a certain profitability in the credit, so the interest rates are high, although lower than formal credits, in order to obtain higher profits. In Guatemala and Honduras, they are granted by NGOs that prioritise sustainability and not profit, so the interest rate is lower.

In a similar way, the allocation of microcredits by gender in developed countries is not a priority, although there is a high percentage of microcredits granted to women, due to the fact that they are more vulnerable. Meanwhile, the greater gender inequality that exists in developing countries means that in these countries women are a priority group and therefore have a higher percentage of loans granted to them.

In developing countries, many microcredits are granted to aid or community groups, whereas in Europe they are almost exclusively granted to individuals because of their greater integration into the financial system.

In developed countries, microloans are usually between €5,000 and €10,000, but can be as much as €25,000, while in developing countries they are much smaller, averaging between €500 and €1,500.

In European countries, a high percentage of microcredits are granted to immigrants, as they are one of the highly vulnerable groups with little possibility of access to the formal financial system, while in Latin American countries it is the nationals, mainly women, who benefit from them, as they are the most vulnerable and, in some countries, it is even one of the conditions for obtaining them (**Machado, 2014**).

#### **4.4.- THE MICROCREDIT MARKET AND FUTURE LINES OF ACTION.**

When we talk about microcredit, we always talk about the future. A future that they offer to countless poor people who have found themselves with the possibility, through a microcredit, of setting up a business, getting out of poverty and starting a new life with new prospects.

Bearing in mind the importance of this financial instrument as a generator of productive activities for poor sectors, it allows to obtain a regular income, enhance the role of women in society and access other fundamental rights, such as the right to work or housing. In this sense, it is essential to establish a series of recommendations to be considered by decision-makers and the financial system in order to integrate it more effectively.

Firstly, government policies must take into account the microfinance sector and create laws for the regulation of MFIs, to allow them to collect savings from clients but always with proper and exhaustive controls.

The most successful MFIs are those that have focused on the sustainability of their operations by taking care to cover their costs first, and to capitalise second.

Secondly, formal institutions must develop a specific methodology adapted to microcredit, as the usual corporate banking techniques are not applicable, seeking to adapt to this very specific profile of borrowers and operations.

Thirdly, the financial market must train professionals capable of managing this type of financial products, but also capable of providing monitoring and advice, thus mitigating in many cases the effects of mismanagement.

Fourthly, it is necessary to improve the distribution and access conditions for vulnerable people to very basic financial services and to reach places or segments of the population that were previously inaccessible, for example, in the case of geographically remote clients. In this sense, new technologies must be put at the service of microfinance.

## 5.- CONCLUSIONS

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Microcredits are clearly operational products in developing countries where they began to be granted in the 1970s, following in the footsteps of Muhammad Yunus. In the 1990s, seeing that their sustainability were possible, they began to be applied in the most depressed areas of the most advanced countries. Today microcredits are considered "*a tool with enormous potential for the eradication of poverty*"<sup>12</sup>.

In this context, it has been analysed how regulation can favour or hinder the development of financial instruments and social and labour inclusion instruments such as microcredits, both in developed and undeveloped countries, by carrying out a case study. It has been possible to establish a series of recommendations to help decision-makers universalise basic financial services, bringing them closer to those people and groups that are financially and socially excluded.

The main results of the study show that a monitoring system should be created to demonstrate the impact (whether positive or negative) of the microfinance sector on society. While NGOs are concerned with helping needy sectors of the population to build a better future for themselves, there are some banks that massively finance consumption, with the risk of over-indebtedness of microcredit users, which can have fatal consequences.

The granting of microcredits to women, particularly in developing countries, is highly positive for the family (they are more efficient than men), and also for them (it makes them more respected socially and also within the family).

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<sup>12</sup> Funcas. Libro Blanco del Microcrédito, 2005.

Moreover, the provision of microcredit in developed countries to migrants means that the likely benefits are doubly utilised by both the user and his or her family members through remittances as they are used in their home countries by their immediate family members to improve their lives.

The main limitations of this work are space and time, as it would be necessary to delve more deeply into the role of women and immigrants. For women, in order to understand the importance of granting microcredits, especially in developing countries, for their personal development and empowerment in their area of society. For immigrants, to see how, after expatriating to build a future for themselves, they manage, with the help of a microcredit, to get ahead and help with remittances to their direct family members who have remained in their land of origin.

Other limitations are the lack of public data, indicators and standardised information to be able to measure, in an integrated way, the impact of microcredits in different countries and economic contexts, as well as the diversity of regulations and standards that make it difficult to interpret.

In future research, it would be necessary to work more deeply on these two aspects mentioned above and to encourage the creation of systems that would make it easier to measure the impact of microcredits on the creation of employment, the improvement of family life and the future of the children of the families that benefit from them.

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